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97TH CONGRESS
2d Session

SENATE

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314 Vol. 1

VOLUME 1

DEVELOPMENTS IN AGING: 1981

A REPORT

OF THE

SPECIAL COMMITTEE ON AGING
UNITED STATES SENATE

PURSUANT TO

S. RES. 45, MARCH 3, 1981

Resolution Authorizing a Study of the Problems
of the Aged and Aging

MARCH 1 (Legislative day FEBRUARY 22, 1982).—Ordered to be printed

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LETTER OF TRANSMITTAL

U.S. SENATE,
SPECIAL COMMITTEE ON AGING,
Washington, D.C., March 1, 1982.

Hon. GEORGE BUSH,
President, U.S. Senate,
Washington, D.C.

DEAR MR. PRESIDENT: Under authority of Senate Resolution 45, agreed to March 3, 1981, I am submitting to you the annual report of the Senate Special Committee on Aging, Developments in Aging: 1981, volume 1.

Senate Resolution 4, the Committee Systems Reorganization Amendments of 1977, authorizes the Special Committee on Aging "to conduct a continuing study of any and all matters pertaining to problems and opportunities of older people, including, but not limited to, problems and opportunities of maintaining health, of assuring adequate income, of finding employment, of engaging in productive and rewarding activity, of securing proper housing and, when necessary, of obtaining care and assistance." Senate Resolution 4 also requires that the results of these studies and recommendations be reported to the Senate annually.

This report describes actions during 1981 by the Congress, the administration, and the Senate Special Committee on Aging which are significant to our Nation's older citizens. It also summarizes and analyzes the Federal policies and programs that are of the most continuing importance for older persons, their families, and for those who hope to become older Americans in the future.

On behalf of the members of the committee and its staff, I am pleased to transmit this report to you.

Sincerely,

JOHN HEINZ, *Chairman.*

SENATE RESOLUTION 45, 97TH CONGRESS, 1ST SESSION[1]

Resolved, That, in carrying out the duties and functions imposed by section 104 of S. Res. 4, Ninety-fifth Congress, agreed to February 4, 1977, and in exercising the authority conferred on it by such section, the Special Committee on Aging is authorized from March 1, 1981, through February 28, 1982, in its discretion (1) to make expenditures from the contingent fund of the Senate, (2) to employ personnel, and (3) with the prior consent of the Government department or agency concerned and the Committee on Rules and Administration, to use on a reimbursable basis the services of personnel of any such department or agency.

SEC. 2. The expenses of the committee under this resolution shall not exceed $901,946, of which amount (1) not to exceed $25,000 may be expended for the procurement of the services of individual consultants, or organizations thereof (as authorized by section 202(i) of the Legislative Reorganization Act of 1946, as amended), and (2) not to exceed $1,000 may be expended for the training of the professional staff of such committee (under procedures specified by section 202(j) of such Act).

SEC. 3. The committee shall report its findings, together with recommendations for legislation as it deems advisable, to the Senate at the earliest practicable date, but not later than February 28, 1982.

SEC. 4. Expenses of the committee under this resolution shall be paid from the contingent fund of the Senate upon vouchers approved by the chairman of the committee, except that vouchers shall not be required for the disbursement of salaries of employees paid at an annual rate.

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[1] Agreed to March 3, 1981.

PREFACE

In 1981 the attention of the country focused on Federal policies relating to aging as never before. Three major events—the debate over the budget reductions and Federal spending, the administration's social security proposals, and the third White House Conference on Aging—drew wide public attention to the issues facing the current elderly population as well as future generations of older Americans.

Budget concerns dominated the year within the Congress, and the debate over domestic spending became deeply associated with proposals to change income-transfer, social insurance, and social services programs serving older Americans. With almost one-third of the Federal budget now committed to these programs, the need for more efficient and coordinated policies and programs became more apparent.

The administration's proposals to scale back social security eligibility and benefit levels met with intensely unfavorable reaction within the Congress and among the public. But the financing problems that social security faces—both early in this decade and after the turn of the century—remain. Although the political controversy surrounding this issue certainly sensitized the Congress and the public to the importance and difficulty of achieving a financially sound social security retirement system, a pragmatic solution to this political dilemma seemed no closer at the end of the year than at its beginning. It will be left to the newly established National Commission on Social Security Reform to propose new solutions at the close of 1982.

The 1981 White House Conference on Aging brought together over 4,000 interested citizens from across the country for an intense week of discussion and debate. The 2,200 delegates approved more than 600 recommendations. It was clear that the major concern of the delegates was the preservation of gains won since the first White House Conference in 1961. Nonetheless, many recommendations were forward-looking and will serve to further public policy in the coming decade. Exactly which of the numerous ideas will be actively considered will, as usual, not be clear for some time, but efforts are now underway to more systematically evaluate and prioritize the numerous recommendations.

These events took place against a demographic and economic backdrop that is becoming familiar to everyone who begins to look at domestic social policy. It is much more than simply the growth of the over 65 population, dramatic though that will be, and more than the also dramatic gains in longevity. Instead, these projections point to the emergence of an entirely new population and economic "age-geography" that will require adjustments in all of our institutions, both public and private.

While we are maturing as a population, this won't be a smooth or gradual transition. Instead, the postwar baby-boom generation now in its thirties will bring very sudden and dramatic transformations to each decade as it matures. When this generation nears retirement age, around the year 2020, the dislocations could be severe if we do not plan for this event well in advance. Certainly a central lesson of 1981 is the necessity for such advance planning whenever people's retirement expectations are involved.

Last year also marked a new appreciation of the role aging issues play in the overall economy. Certainly, the greatly expanded opportunities for individual retirement accounts contained in the historic Economic Recovery Tax Act of 1981 were designed not only to help individuals prepare for their own retirement, but also to restore the inflow of savings necessary to finance economic expansion.

Another example of this interrelationship of economic policy and aging issues is the growing concern over declining rates of labor force participation among older men and women, even in the face of public opinion polls that show a majority would like to work if they could find appropriate jobs and flexible arrangements for doing so. An additional societal challenge is that the population of the younger (age 16 to 44) working-age population will cease increasing some time between now and the year 1990, and plateau or decline for the rest of the century. Clearly the human resources now largely wasted by our current failure to adapt work patterns to the needs of older workers cannot continue to be lost without a cost to the economic well-being of our society.

The needs of our increasingly diverse older population continue to outpace the public resources available to meet them. Despite a guaranteed minimum income for those over 65 (SSI), and despite social security benefits fully indexed to the CPI, the percentage of older persons whose incomes fall below the poverty level has increased for 2 consecutive years, reaching 15.7 percent. While noncash assistance programs such as food stamps and housing subsidies help many low-income elderly, it is nonetheless true that a majority of older persons with incomes below the poverty line do not participate in either SSI or the noncash programs.

Perhaps the most persistent concern of older Americans today is the cost of adequate health care. Even with medicare and medicaid expenditures increasing more rapidly than almost any other part of the Federal budget, older persons still face very high out-of-pocket expenses for medical care. Care for chronic conditions is particularly expensive and only covered by medicaid after all other assets are exhausted. Coverage for these illnesses is the principal unmet challenge for both public and private insurance.

Looming over any discussion of health care financing is the insufficiency of the hospital insurance trust fund to finance medicare beyond this decade. This fact alone may force public policy into different approaches to insurance coverage, such as the variations on "competitive" or "market-based" insurance schemes that are now being proposed. Something fundamental must be done in health care financing within this decade if the growing needs for quality health care are to be met.

Although the Congress reauthorized the Older Americans Act in 1981 for another 3 years, the social services funded through that act were not the subject of major proposed changes. This reflects two basic judgments by the Congress—that the existing network set up under the act is basically working well, and that funding of service programs for older Americans should remain a Federal responsibility, with, of course, a large amount of local discretion in terms of program and resource allocation. This retaining of Federal responsibility is remarkable in a year in which many other similar programs for other population groups were folded into block grants and given to the States to administer.

In light of these and many other public policy issues of concern to older Americans, the Senate Special Committee on Aging has engaged in a productive year. We have expanded our efforts to inform the public through publication of committee prints and newsletters, and our hearings have been focused on the most pressing issues before Congress. In many instances, members of the committee were able to propose legislative or administrative changes designed to serve older Americans more effectively and efficiently.

The report that follows discusses these developments in 1981, but it is also important to note that it attempts to survey only Federal policies and programs, and makes no attempt to cover equally significant developments that may be occurring at the State and local levels, in the private sector, in our universities, in cultural attitudes, or in our family relationships. It is the interaction of all of these elements that will shape the opportunities and needs of future generations of older Americans.

Finally, we acknowledge the dedicated work of the authors of this report, the staff of the Senate Special Committee on Aging. This report is a synthesis of the working knowledge they bring to the service of the committee.

In sum, the challenges ahead are growing in both magnitude and complexity. Although we have, as a country, made giant strides in improving the quality of life for our eldest members in recent years, the central public policy challenge in the remainder of this century will be the extent to which we can adapt ourselves to changing circumstances and still meet the needs and expand the opportunities accompanying the promise of long life.

Sincerely,

JOHN HEINZ,
Chairman.
LAWTON CHILES,
Ranking Minority Member.

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VOLUME 1
DEVELOPMENTS IN AGING: 1981

MARCH 1 (Legislative day FEBRUARY 22, 1982).—Ordered to be printed

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Mr. HEINZ, from the Special Committee on Aging, submitted the following

REPORT

[Pursuant to S. Res. 45, 97th Cong.]

Chapter 1

THE AGING POPULATION: GROWTH AND DIVERSITY

OVERVIEW

The decade of the eighties will bring broad-based social, economic, and technological changes to the United States. For older Americans, the twin themes of growth and diversity will characterize their status as a group. As our society continues to "age" during the remainder of this century, both growing numbers of older persons and their growing diversity will have significant implications for public policy.

This chapter on the sociodemographic aspects of aging is concerned with how the numbers, composition, and characteristics of our population differ by age, and how those differences are changing. The impact of aging can be seen in terms of social and economic characteristics (e.g., labor force participation, income, living arrangements), as well as physical conditions (e.g., length of life, health). Nonetheless, a distinction must always be made between the characteristics of particular aging individuals and the characteristics of the older population in general.

Data from the 1980 census indicate that a larger than expected number of persons are living longer. Therefore, the growth of the current older population has exceeded even previous projections. It is now anticipated that future increases in the older population also will surpass prior projections.

These increases have far-reaching consequences for many social programs and institutions. For example, the number of typical "retirement age" persons (65+) will be increasing more rapidly as compared to the number of typical "working age" persons (18 to 64). Population projections indicate that there may be only five "working age" persons for every "retirement age" person at the turn of the century.

Increased longevity of the older population coupled with reduced fertility in the late sixties and seventies have set the course for this demographic development. The programs administered by the Veterans Administration will also be affected by this increase in the number of older persons. The increase in older veterans, who served in World War II and Korea, will be dramatic—half of all males over 65 will be veterans at the end of the decade.

At the same time that the older population is increasing, that group is becoming more socially and economically diverse. For example, a growing proportion of those over 65 have college degrees. A greater proportion of older persons are living alone today than previously. While the aged have historically been more likely to live in the older central city areas of the Northeast and Midwest, the next decade will bring a great increase in the numbers and proportions of older persons in the Sunbelt States and in suburban areas. Nationwide the proportion of the aged who are over 84 is growing at a much faster rate than even the total over-65 group.

While the economic status of those who are married and receive pension income in addition to social security has been improving, the situation of the very old, minority-group members, widows, and those without pensions has not. The proportion of older persons living below the poverty level has not declined as notably this past decade as in the previous one, and has actually increased slightly in recent years.

The interest in the status of our older population is personal as well as a matter of public policy. Not only do most persons have a close relationship with someone in the current older generation, but also, we can all hope to join that group someday ourselves.

A. GROWTH IN NUMBERS

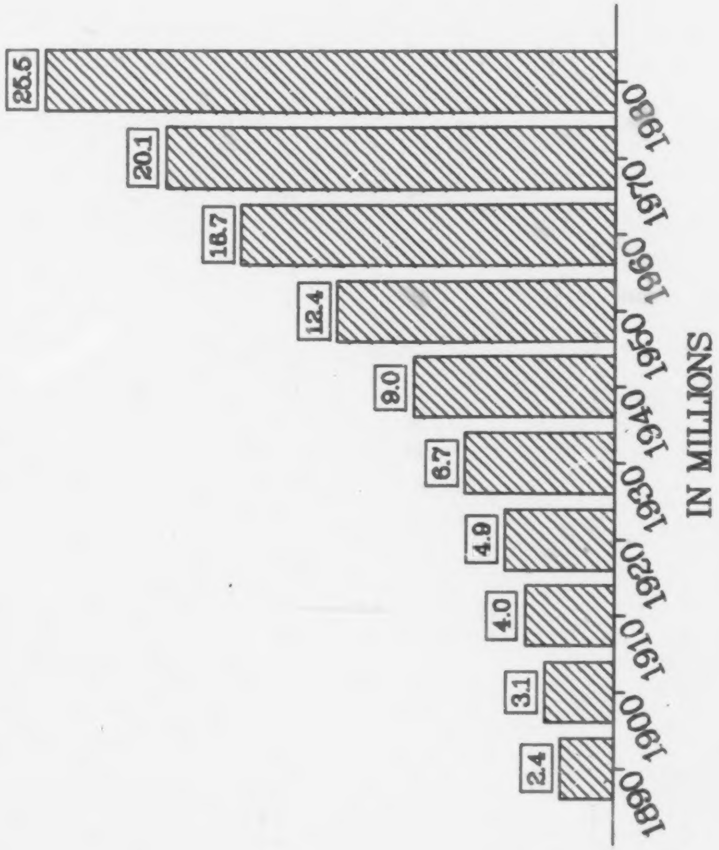
The sustained rapid growth of the Nation's older population is, perhaps, the most dramatic demographic trend of the past 100 years in the United States.[1] The 1980 census recorded 25.5 million Americans 65 or more years of age, a tenfold rise from their number in 1880, and a net increase of more than 5 million during the 1970's alone (see chart 1). At 11.3 percent of the Nation's population in 1980, older Americans had more than doubled their share of our total population from 50 years earlier and more than quadrupled it from 1880.

Continued growth of the older population is expected during the 1980's and 1990's. By 2000, the population aged 65 and over is projected to rise to at least 32 million, an increase of 30 percent. Over the same 20 years, the population under age 65 is expected to increase by only 15 percent. Thus, older Americans—defined in this chapter as all persons aged 65 or more years—will represent about 12 percent of the Nation's population by 2000. They will comprise an even larger proportion during the 21st century as the "baby-boom" generation begins to reach the older ages in 2010 and beyond.

---

[1] Chapter text was prepared for the committee by Sally L. Hoover, and the charts were prepared by Michael Fortier, both of the Center for Demographic Studies, Bureau of the Census, Department of Commerce.

CHART 1. HUNDRED YEARS OF POPULATION GROWTH: AGED 65 AND OVER, 1890–1980

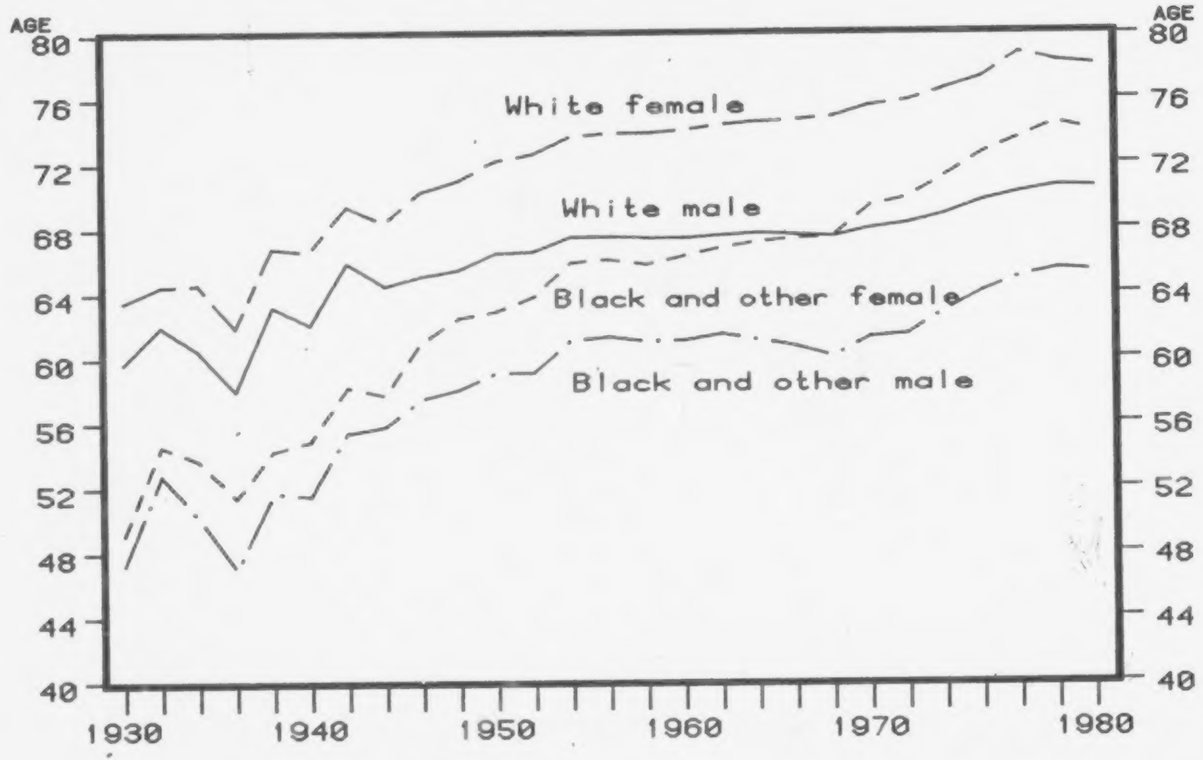


Source: U.S. Census of Population, 1890–1980.

1. Sources of Growth

The dramatic increase in the number and proportion of older persons can be traced to at least two basic phenomenon. First and foremost, the increase in the number of births up to 1921. Second, the number of years that a typical American can expect to live has increased substantially during this century. At the turn of the century, about two-fifths of the newborn babies were likely to reach age 65; by 1980, about three-fourths of the newborns will probably reach age 65. Major gains in overall life expectancy occurred early in the century when infant mortality and early childhood death rates declined sharply. For the current older population, most of whom were born between 1900 and 1915, the improvement meant a far greater chance of attaining old age. In other words, a larger share of each subsequent birth cohort has reached retirement age, increasing the absolute and relative numbers of older persons in our population.

CHART 2. LIFE EXPECTANCY AT BIRTH BY RACE AND SEX: 1930 TO 1980



Source: U.S. Department of Health and Human Services, National Center for Health Statistics, Vital Statistics of the United States.

Not only has the flow of persons into the older ages increased for each generation, but having attained age 65, individuals can expect to live longer than their forebears. On average, a person reaching age 65 in 1980 is likely to live 16.4 more years, or 4.5 years more than a person reaching age 65 at the turn of the century. Thus, longevity among those reaching age 65 has increased by more than a third during the last 80 years.

2. RELATIONSHIP TO THE WORKING AGE POPULATION

The ability of our society and the economy to meet the needs and provide appropriate opportunities for older Americans is closely related to their relative numbers in the population. Historically, reflecting increased life expectancy and a long-range trend toward smaller families, the working-age population—a proxy for the maximum potential labor force—has grown less rapidly than the older population. This pattern is true for virtually any combination of definitions of old age or working age as long as the specific ages are not changed. Prospectively, continued rapid growth of the older population and slowing growth of the working-age population guarantees a further decline during the remainder of this century and into the next century.

More specifically, from a societal point of view, the population can be divided into three general age groups: Those too young to work, those of working age, and those too old to work. Once defined, these three segments of the population can be used in various combinations to estimate support ratios, that is, the number of potential workers to the number of nonworking persons. In developed nations such as the United States, where these categories are largely a function of social convention, personal choice, and the performance of the economy, analysts often have defined the three age groups as those under 18, those 18 to 64 years of age, and those aged 65 and older. By these definitions, there were 13.7 working-age persons for each older person in 1900; the number had declined to 9.1 by 1940, and sharply further to 5.4 in 1980; and, by the year 2000, the ratio is projected to decline further to 5 working-age persons for each older person (see chart 3).

TABLE 1.—RELATIONSHIP OF THE WORKING-AGE POPULATION TO THE OLDER POPULATION

	1900	1920	1940	1960	1980	[1] 2000
Working-age population (ages 18 to 64), in millions	42.2	61.5	82.4	98.6	137.2	159.6
Older population (aged 65 or more), in millions	3.1	4.9	9.0	16.6	25.5	31.8
Number of potential workers for each older person	13.7	12.5	9.1	6.0	5.4	5.0

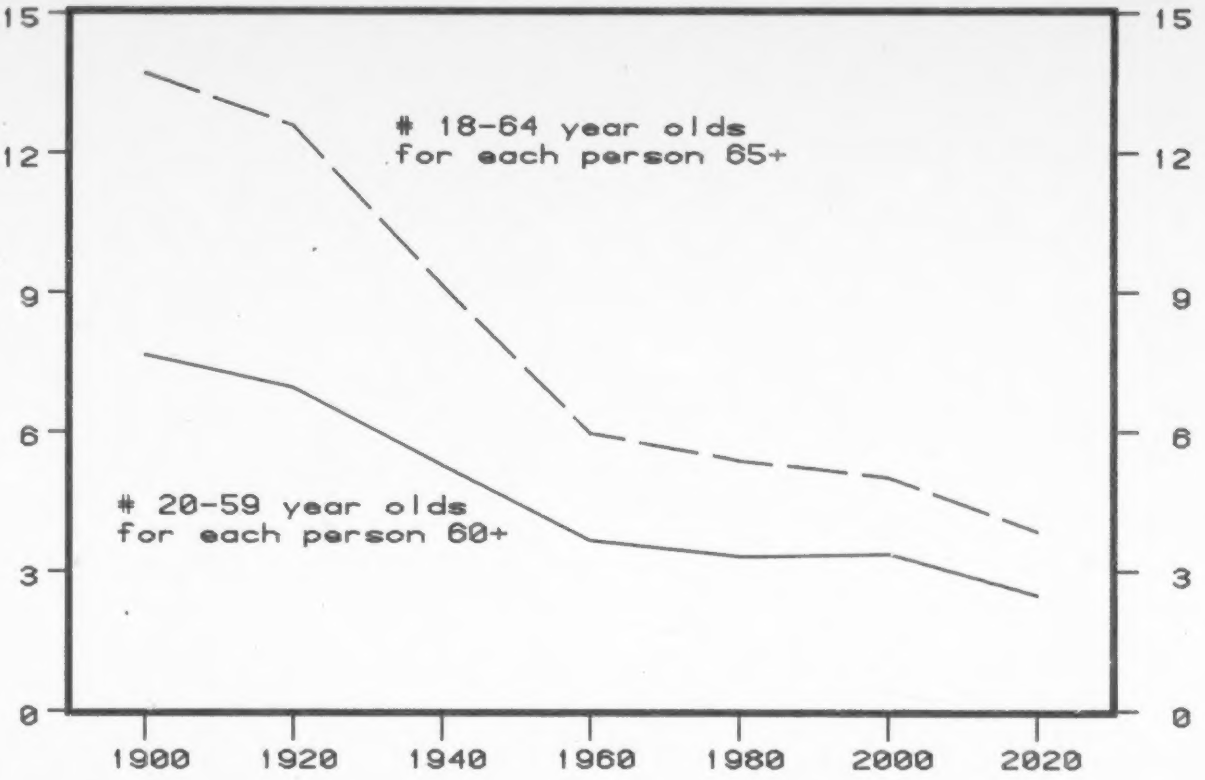
[1] Projected, series II, P–25, No. 704, July 1977.

Source: Bureau of the Census, Department of Commerce.

Small changes in the age groups arising from retirement trends or policy decisions can result in relatively large changes in the support ratio. An increasing share of those eligible to do so have chosen to retire at age 62; alteration of the definition to allow for universal retirement at 62 years of age would drop the support ratio for 1980 to 4.5. By contrast, if concerns about the adequacy of retirement income and an awareness of the increased ability of older persons to work led to an increase in the retirement age to 67 years, the comparative support ratio in 1980 would have been 7.1.

Clearly, however, continuation of trends of earlier retirement and longer life, coupled with lower fertility over the past two decades insures a further decline in the number of potential workers for each older American.

CHART 3. NUMBER OF YOUNGER PERSONS FOR EACH OLDER PERSON, SELECTED YEARS 1900 TO 1980 AND PROJECTIONS TO 2020



Source: U.S. Census of Population, 1900-1980; Current Population Report, Series P-25, No. 704.

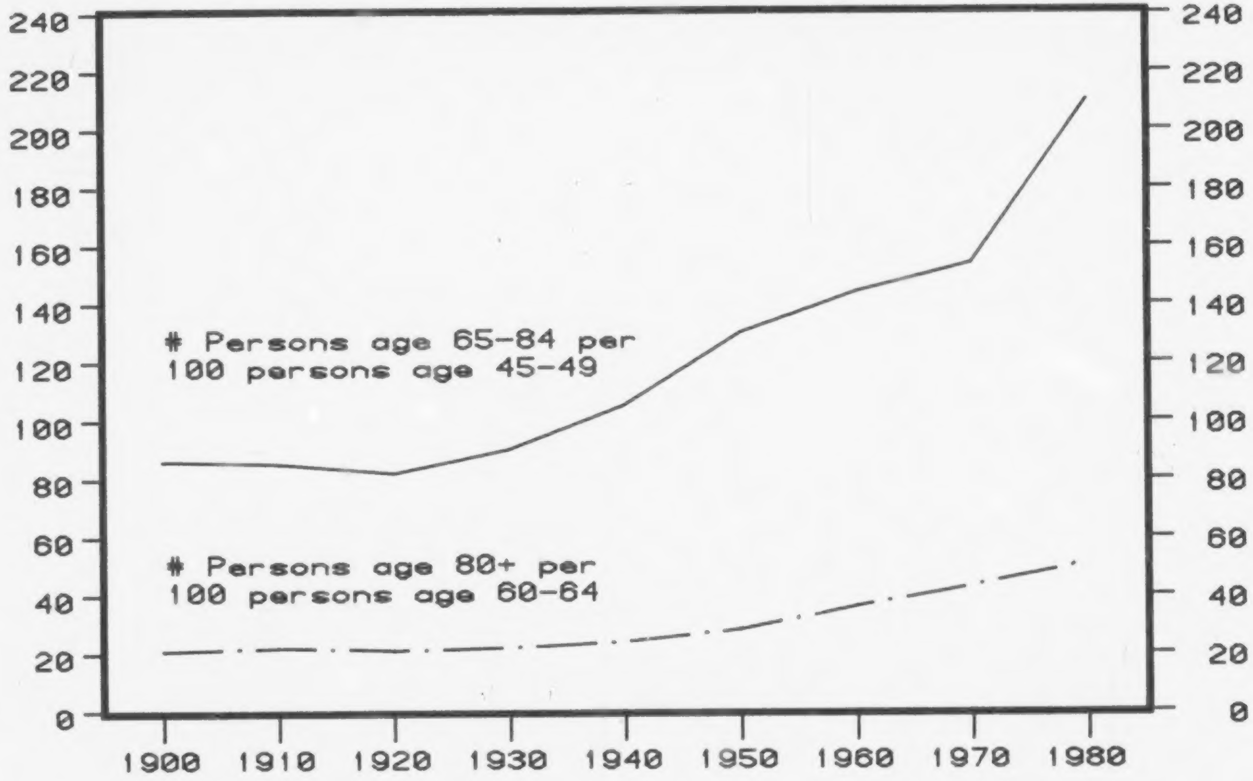
3. INTERGENERATIONAL RELATIONSHIPS

As a larger proportion of the population has survived into the upper ages, a growing share of middle-aged and even older Americans have living aged parents. Thus, more and more middle-aged to older Americans have been faced with questions concerning the care and welfare of aging, and frequently increasingly frail, parents at a stage of life when they bear heavy responsibilities for their own children—e.g., college expenses—or when they themselves may be anticipating retirement and facing the concerns of their own old age.

The number and percentage of middle-aged Americans who have living parents clearly have increased greatly since 1900. Older parents represent essentially the potential "dependents" on younger generations, presumably their children. To illustrate: At the turn of the century, there were about 86 persons aged 65 to 84 for every 100 persons aged 45 to 49. As is shown in chart 4, 80 years later in 1980, there were 210 persons aged 65 to 84 for every 100 persons aged 45 to 49.

Becoming more commonplace, too, are older persons who themselves have extremely aged living parents. By way of illustration of the potential dependence, in 1900, there were only 21 persons aged 80 and older for every 100 persons aged 60 to 64; by 1980 as shown in chart 4, the figure had more than doubled to 51 persons aged 80-plus for every 100 persons aged 60 to 64.

CHART 4. ILLUSTRATIONS OF CHANGING INTERGENERATIONAL POPULATION RELATIONSHIPS



Source: U.S. Census of Population, 1900-1980.

These phenomenon are expected to become even more commonplace when the "baby-boom" generation reaches the older ages between 2010 and 2030. Prior to that time, some easing of intergenerational trends will occur as current middle-aged persons born during the twenties, depression, and World War II, when the number of births were falling, are superseded in the middle-age years by the "baby-boom" generation. Those born during the twenties, the depression, and World War II, will begin to move into the older ages after 1985; their smaller numbers relative to the preceding and succeeding generations will create a 25-or-so-year period of stable or declining intergenerational support ratios.

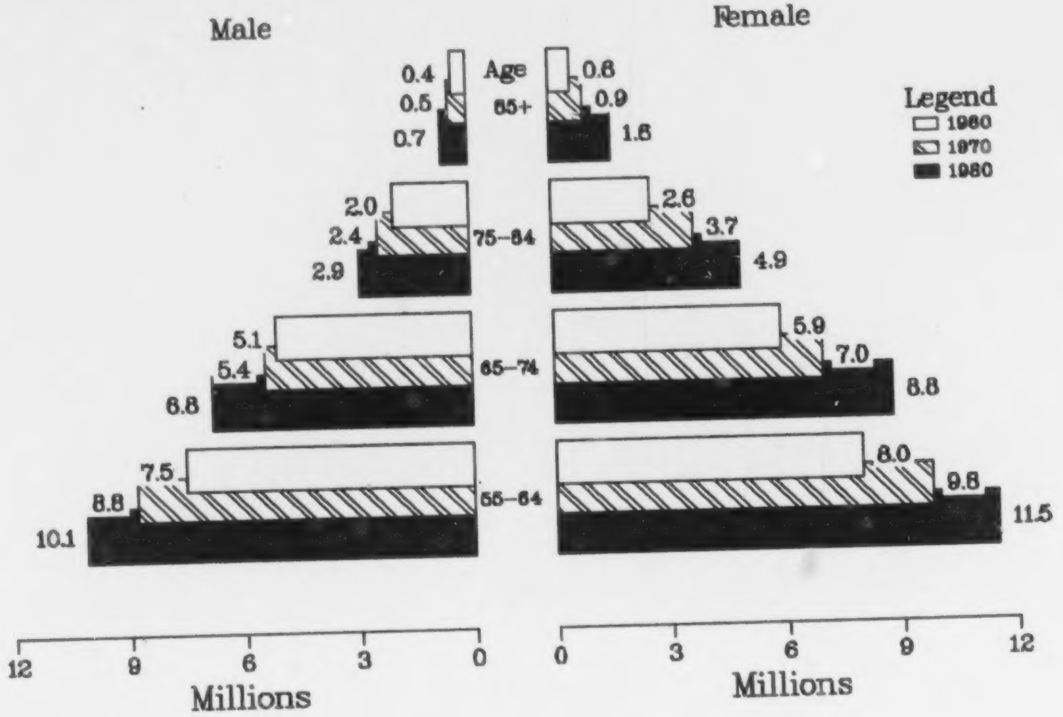
At the same time, because of the widespread decline in fertility beginning in the sixties, more and more older Americans may reach advanced ages without the familial support of living children and certainly with fewer living children than their parents and grandparents had. Today, about four-fifths of all persons over age 64 have living children. At least this proportion of older persons will have potential familial support until the parents of the baby-boom generation have been replaced by subsequent generations whose fertility rates were lower.

B. INCREASING DIVERSITY

The remarkable absolute and relative increases in the aged population have been accompanied by gradual but profound changes in their typical personal characteristics and socioeconomic situations. In 1920, for example, older Americans generally would have lived with other family members (with a husband/wife, or children) outside a metropolitan area. Most older men would have been engaged in some kind of work activity (frequently on a farm). By 1980, most older Americans live in metropolitan areas, an increasing proportion do not live with other family members, and the vast majority of older men are not in the labor force. Socially and economically, today's retired persons have different backgrounds, ways of doing things, and expectations other than their parents and grandparents.

Especially in the last two decades, the older population has become increasingly heterogeneous; its diversity in social, economic, and physical abilities creates major challenges for the society. This chapter will quantify some of the more important aspects of the increasing heterogeneity of the older population. The consequences and implications of this increased diversity for public programs and policy are developed in more detail in subsequent chapters.

CHART 5. POPULATION OF THE UNITED STATES AGED 55 AND OLDER: 1960–1980



Source: U.S. Census of Population, 1900-1980.

1. More Older Women

Increased heterogeneity among older Americans has been fostered in part by differential gains in life expectancy. Life expectancy varies by sex; as shown in chart 2, on average, women now live considerably longer than men. Until 1920, the gap in life expectancy of males and females was only about 2 to 3 years, whether at birth or ages 20, 45, or 65 years. In the ensuing years, however, women recorded larger improvements in life expectancy. Relatively fewer males reach age 65, and at age 65, women now have a life expectancy of 18.4 additional years, while men have an expectancy of an additional 14 years.

Because life expectancy gains have favored women, they are disproportionately represented among older Americans. As recently as 1930, there were equal numbers of males as females aged 65 and older. Since then, the proportion of older men has steadily declined. Currently, there are about 15 million older women versus 10 million older men, or 68 older men for every 100 older women. At the turn of the next century, projections suggest that there will be about 65 older men per 100 older women.

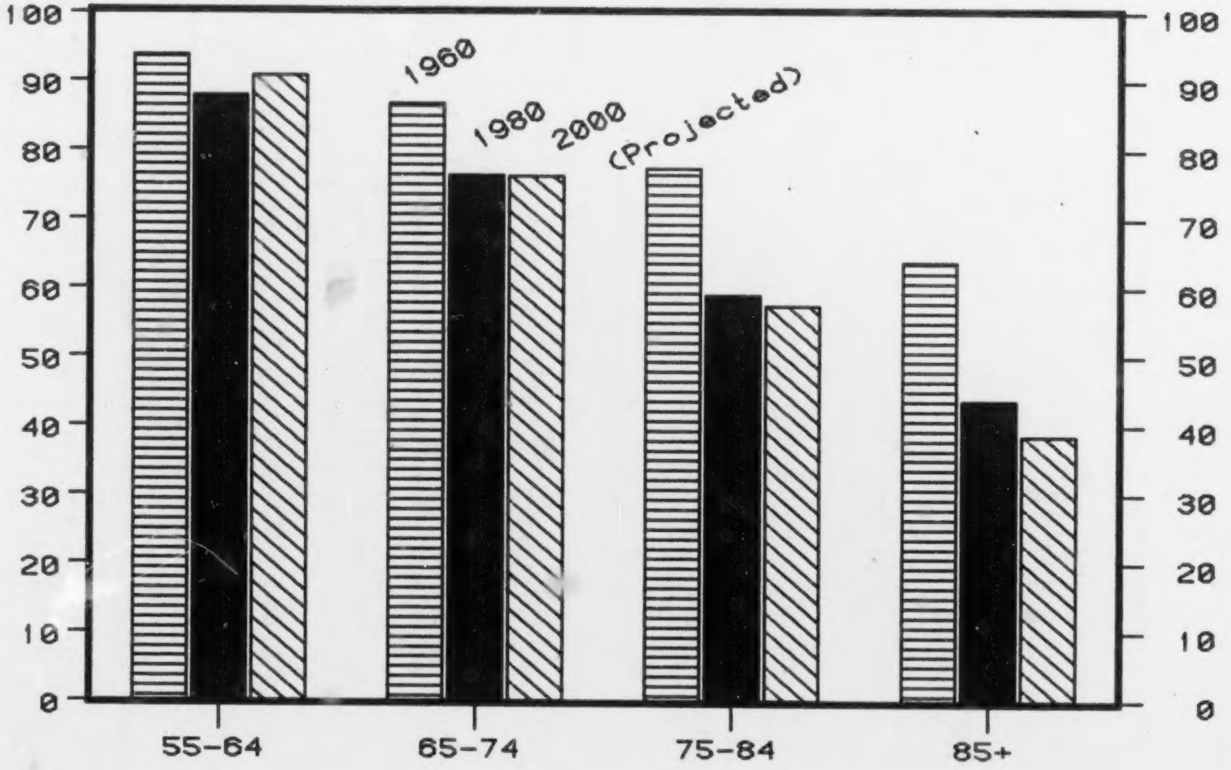
2. More Extremely Aged

Diversity in demographic characteristics, socioeconomic status, and living arrangements is closely associated with chronological age. For example, the 2.5 million persons aged 85 years or more are disproportionately institutionalized, most do not have a living spouse, and, on average, they have lower incomes. To better illustrate differences associated with age, a taxonomy has been adopted that subdivides the older population into broad subgroups, namely the *old-old*, comprised of persons aged 85 years or more; the *middle-old*, those 75 to 84 years of age; and the *young-old*, persons in ages 65 to 74.

The old-old group (persons aged 85 and over) more than doubled between 1960 and 1980 and is projected to increase at least 1½ times by 2000. Although comparatively small in absolute number, the old-old is one of the fastest growing age groups in the society. Survival into their late eighties and beyond for persons now in their midsixties to midseventies almost certainly will be associated with increased demands on health-care facilities and personnel, income maintenance programs, and other social support systems.

As illustrated in chart 6, the disparity in the number of women relative to men becomes more pronounced at progressively older ages. The 1980 census showed that up to age 50, women and men still are approximately equal in number. Among the young-old group (65 to 74) however, there are only 77 men per 100 women; in middle-old, 50 men per 100 women; and in the old-old group (aged 85 or more), 44 men per 100 women. So, the issues and problems of extreme age are more frequently associated with women than men.

CHART 6. MEN PER 100 WOMEN, SELECTED AGES
1960 - 1980 - 2000



Source: U.S. Census of Population, 1960, 1980; Current Population Report, Series P-25, No. 704.

3. Marital Status

By age 65, about 95 percent of all men and 94 percent of all women have been married at least once. And yet, because half of all women aged 65 years or more are widowed, 6 percent have never married, over 5 percent are divorced, separated, or living apart from their spouse for other reasons, about 62 percent of all older women do not have direct personal and economic support provided by a husband living with them. By contrast, about three-fourths of all older men do have the support of living with wives; only 14 percent of all older men are widowers, 5 percent have never married, and nearly 6 percent are divorced, separated, or otherwise living apart from their wives.

The number and percentage of divorced older persons, albeit comparatively small, is rising. In 1950, about 1 percent of the older women were divorced, but by 1980, the percentage had climbed slowly but steadily to 3.4 percent. Women in the young-old ages (65 to 74) have a higher proportion divorced than their older counterparts. The trend toward more older divorcees is almost certain to continue since 6.6 percent of the women aged 55 to 64 in 1980 were divorced. Within the older population, marital status differences between the "young-old" (65 to 74) and those over 75 years of age are large, primarily because of differences in the proportion widowed, as is shown in table 2 below:

TABLE 2.—MARITAL STATUS OF THE NONINSTITUTIONAL OLDER POPULATION: 1980

Marital status	Aged 65 to 74 yr		Aged 75 yr or more	
	Women	Men	Women	Men
	Number (in thousands)			
Widows or widowers	3,444	557	3,677	776
Married, spouse present	4,114	5,200	1,197	2,190
Married, spouse absent (including separated)	168	146	67	54
Divorced	342	290	126	71
Never married	480	357	344	142
Total	8,549	6,549	5,411	3,234
	Percent Distribution			
Widows or widowers	40	9	68	24
Married, spouse present	48	79	22	68
Married, spouse absent (including separated)	2	2	1	2
Divorced or separated	4	4	2	2
Never married	6	6	6	4
Total	100	100	100	100

Source: Bureau of the Census, Department of Commerce.

4. LIVING ARRANGEMENTS

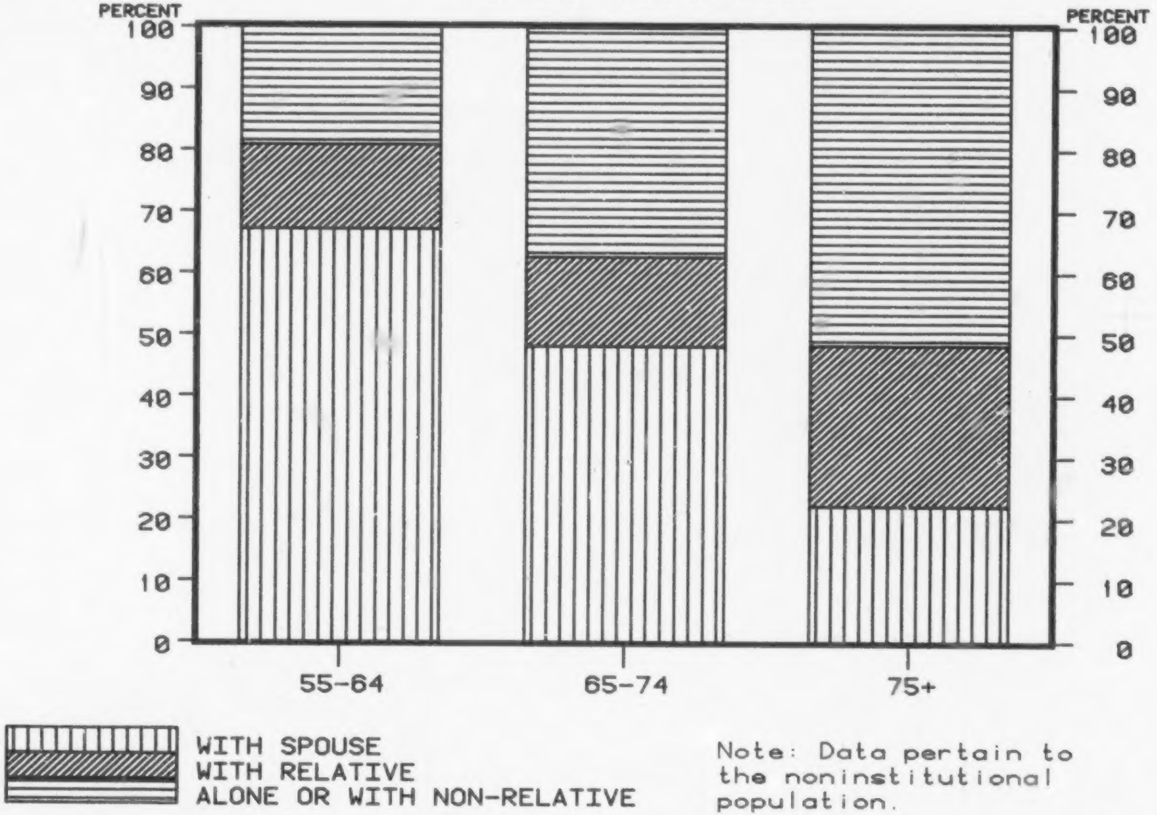
The marital status of older persons is a major factor in their living arrangements. In 1980, more than 7 million older Americans, or 30 percent of the older population, lived alone. The vast majority were widows or widowers, although nearly one-fifth were either divorced or had never married. Nearly 17 million older persons were living with a spouse, other relative (usually a child), or an unrelated individual. More than 1 million older Americans resided in institutions.

One of the important trends in aging of the past two decades has been the large increase in the absolute and relative numbers of older persons living alone. In 1960, less than a quarter of all older women lived alone; by 1980, this figure had risen to about two-fifths. The high and rising proportion of older women living alone is a direct consequence of widowhood; that is, of the higher mortality rates for men as well as the tendency of men to marry younger women. The vast majority of older men live with their spouse. The proportion of men aged 65 to 74 living with a wife was about 75 percent, as were about two-thirds of those men aged 75 or more years. The proportion of older men living alone increased slightly between 1960 and 1980, from about 12 percent to about 15 percent (see chart 7).

The physical isolation of older widowed or single persons implicit in living alone may be a cause of social isolation and a lower level of living. The dwellings of older married couples are in better repair than are those of single or widowed older men or women. Couples tend to live in dwellings with more efficient heating and cooling systems, and, on an annual basis, about a third of older couples as compared to a quarter of the single persons, had home repairs made.

In all, about 1.7 million families in the United States have one or more older parents living in the household. The proportion of the elderly living with a child varies by sex and age. About 16 percent of the women aged 75 and over live with a child or sibling as compared to about a tenth of the same age men. About 6.5 percent of the men and 14.5 percent of the women between age 65 and 74 are living with a child or sibling (see chart 8).

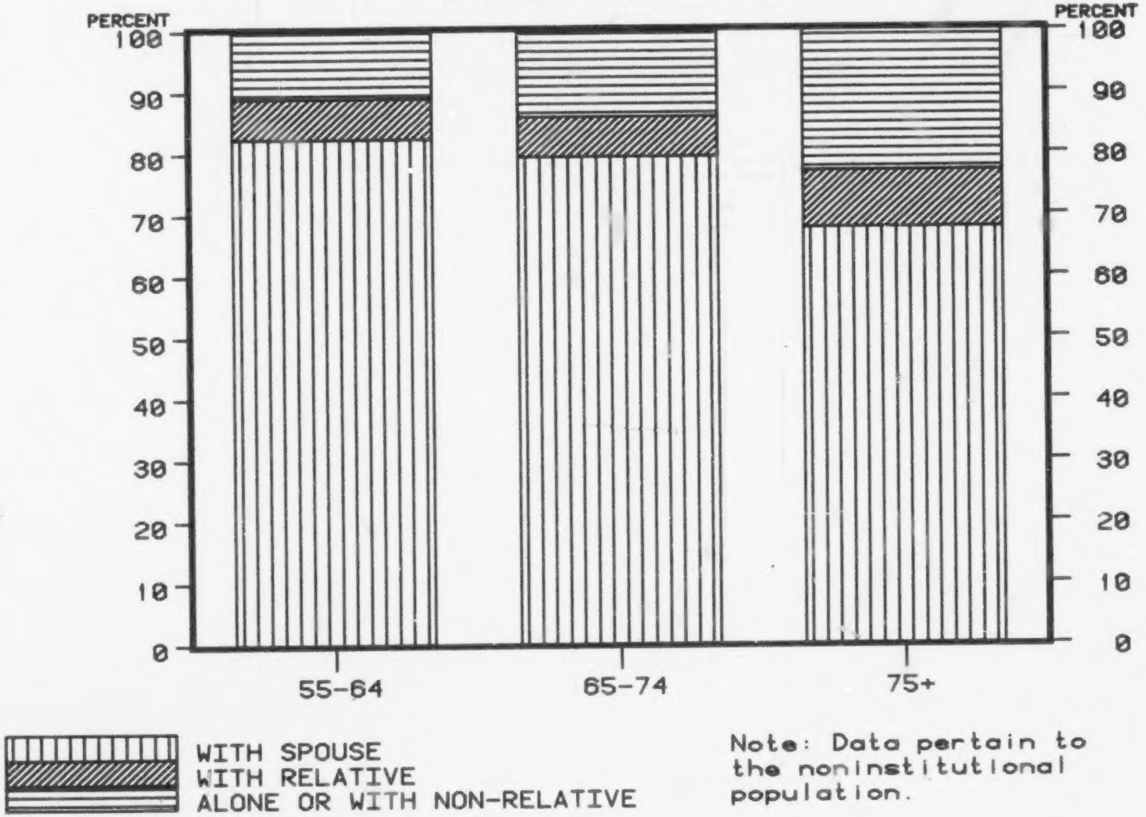
CHART 7. LIVING ARRANGEMENTS OF MATURE AND OLDER WOMEN: 1980
(Percent Distribution)



Note: Data pertain to the noninstitutional population.

Source: U.S. Current Population Report, Series P-20, No. 365.

CHART 8. LIVING ARRANGEMENTS OF MATURE AND OLDER MEN: 1980
(Percent Distribution)



Note: Data pertain to the noninstitutional population.

Source: U.S. Population Report, Series P-20, No. 365.

5. INSTITUTIONAL POPULATION

The proportion of older persons living in institutions has risen slightly. Currently, about 5 percent of the older population, as compared to 3.7 percent in 1960, reside in an institutional facility. In 1976, the latest year for which comprehensive data are currently available, an estimated 1 million persons aged 65 and older were living in long-term care institutions (primarily nursing homes). Of these, the vast majority, about 80 percent, were admitted to the facility for medical reasons.

Institutionalization of elders varies with age, sex, and marital status. More than half of the older residents of institutions in 1976 were at least 80 years old. About an eighth of the elderly nursing home population had a living spouse, compared to about half of the overall older (65+) population. Since a larger proportion of women survive into the more-frail, very old ages, older women were more than twice as numerous as men in nursing homes.

As more persons survive into the "old-old" age groups in the 1980's and 1990's, and as older widows make up a larger proportion of the elderly population, further increases can be expected in the demand for geriatric care, including health professionals and long-term care facilities or alternative support and housing systems to provide for the needs of this growing segment of the older population.

6. HOUSING

Of the Nation's 80 million households, approximately one-fifth, (16.3 million) were headed by an older person in 1980. The 11.7 million older persons who owned their homes represented 22 percent of all homeowners. At 71 percent, homeownership by older Americans significantly exceeded that of younger households, and this was the case in all geographical locations. Homeownership among older households outside metropolitan areas exceeds the number of older renters by a margin of 4 to 1 compared with a margin of less than 3 to 1 among the general population.

Older persons tend to dwell in older housing, which generally provides less adequate service systems such as heating and cooling and is more costly to maintain. Newer housing is generally more efficient in terms of maintenance costs and, on average, better equipped in terms of service systems. The residential building boom of the 1970's produced housing units that are disproportionately occupied by younger households. Only about 11 percent of older households reside in such new housing, compared to 22 percent of households headed by someone under age 65. The presence of complete plumbing facilities (i.e., hot and cold piped water, a flush toilet, and a bathtub or shower) is a commonly used indicator of overall housing adequacy. Applying this measure to the situation of older households suggests below-average quality of housing relative to others: The percentage of housing occupied by older persons lacking complete plumbing is double that occupied by others (over 4 percent for elders versus less than 2 percent). Households headed by an older woman and households composed of never married or divorced older men and women, are substantially more likely to live in such deficient housing.

Older households increasingly turned to mobile home living during the 1970's; an estimated 800,000 older households resided in this type of structure by decade's end. While the proportions of older and younger households living in mobile homes are both about 5 percent, there is a growing trend among older persons to choose this type of dwelling. In 1980, about 17 percent of all new mobile homes were occupied by elders compared to 9 percent of all new housing in general.

The number of older persons living in single-room occupancy buildings is small (less than 1 percent of the older population) but they make up a large percentage of all total occupants in this particular type of dwelling. Generally located within the older neighborhoods of inner-city areas, this type of housing tends to be older, and lower in quality, than others. Older persons in this form of dwelling tend to be male, of lower income, widowed, divorced, or single, and older than the remainder of the aged population.

7. AFFORDABILITY AND VALUE

In respect to housing costs, older Americans find themselves in a unique circumstance: On average, their absolute costs are lower than any other age group, but the relative cost of housing, expressed as a percentage of household income, is higher. Shelter costs relative to income are highest among the old-old and lowest among the young-old in large part because the latter tends to have higher pension and social security income and they are more likely to have earned income.

Older homeowners pay more than 25 percent of their household annual income for shelter, on average, compared with 16 percent of the annual income for households with heads aged 35 to 64, and about 20 percent of the annual income among households with heads of household less than 35 years of age. Thus, in spite of the fact that 80 percent of older homeowners have no mortgage on their residence, they face problems of affordability. This situation also holds true for renters. Older renters' housing costs regularly exceed 30 percent of their incomes, compared with 20 to 25 percent for younger renters. As a result of their relatively lower incomes, older renters are relatively more likely to dwell in public housing and receive various forms of rent subsidies, almost 6 percent of all households headed by an older person in 1980.

The median value of homes owned by a person aged 65 or older was about four-fifths of the average of all homeowners in 1980. For example, the median housing values for married-couple households were $45,700 for the elderly and $54,900 for all homeowners. The lower average value of housing owned by older persons affects the future viability and prevalence of such plans as reverse-annuity mortgages or other financial programs for liquefying home equity. Often those older persons who could benefit most from a gradual payout of their equity own older, more dilapidated houses in less desirable neighborhoods. For example, in 1980, the median housing value for older married black couples was $29,900, and $37,300 for older married Hispanic couples. Under current economic and housing market conditions, it is virtually certain that equity retrieval and housing mobility of the aged are much more constrained than during the 1960's and early 1970's.

TABLE 3

A SUMMARY OF HUD HOUSING UNITS FOR THE ELDERLY

ALL FIGURES REPRESENT NUMBER OF PROJECTS/UNITS CURRENTLY INSURED BY FHA UNLESS OTHERWISE NOTED

Section Number	Program	Status	No. of Projects	No. of Units	Value	App. No. of Eld. Units	Percent of Elders	Cumulative figures thru:
CONSTRUCTION PROJECTS								
Title II	Low-Income Pub Hsg	Active	10,750	1,200,000	Not Avail.	552,000[1]	46	9/30/79
202	Direct Loans for Housing for Elderly & Handicapped	Inactive[2] Active[3]	330+ 1,006	65,275 90,323	574,580,000 4,130,154,957	65,275 79,185	100 89	1977 6/30/81
231	Mortgage Insurance for Housing for Elderly	Active	495	66,285	1,158,117,347	66,285	100	6/30/81
221(d)(3)	Multi-Family Rental Housing for Low and Moderate-Income Families	Active	3,532	355,101	5,718,508,463	21,918	7	6/30/81
221(d)(4)		Active	5,239	582,313	13,908,371,752	75,765	13	6/30/81
235	Home Ownership Assistance for Low & Mod Inc Families	Inactive[2] Active	472,059[7] 78,034	473,032 78,134	8,456,660,790 2,768,814,179	Not	Available	Prog. Revs. 6/30/81
207	Multi-Family Rental Housing	Active	2,633	275,588	3,944,141,865	3,380	1.2	6/30/81
236	Rental & Co-op Assistance for Low and Mod Inc Families	Inactive	6,056	435,231	7,492,815,583	55,784	13	6/30/81
202/236	202/236 Conversions	Inactive	181	28,059 (Beds)	480,098,460	28,059 (Beds)	100	6/30/81
232	Nursing Home & Intermediate Care Facilities	Active	1,300	147,336	1,676,509,129	147,336	100	6/30/81
NON-CONSTRUCTION PROGRAMS								
86	Low Income Rental Assistance Existing[4]	Active	10,990	916,704	N/A	265,492	28	6/30/81
	New Const[4,5]	Active	8,225	524,586	N/A	283,741	56	6/30/81
	Substantial Rehab[4,5]	Active	1,654	117,906	N/A	41,394	35	6/30/81
312	Rehabilitation Loans	Active[5]	86,004	N/A	N/A	6,243	7.25	9/30/80
23	Low Rent Leased Housing	Inactive[2]	N/A	163,267	N/A	54,000+	35	Aprox 12/75

1. Data do not indicate how many of these units are designed specifically for the elderly.
2. Figures for original program reported through program revision.
3. Figures for revised Section 202/8 represent cumulative project reservations through 6/30/81.
4. Figures represent cumulative fund reservations through reporting date.
5. Figures do not include Section 8 commitments attached to Section 202/8 fund reservations.
6. Figures represent loan commitments only.
7. Figures represent number of mortgages.

C. ECONOMIC STATUS

The economic status of older Americans improved markedly during the post-World War II period in spite of the rapid rise in their numbers and a strong trend toward nonparticipation in the work force. The pace of improvement slowed during the 1970's, however, as higher inflation, slower economic growth, and other factors (including rising fuel costs) conspired to greatly moderate gains in economic well-being for most groups in our society.

1. Labor Market Activity

In 1950, close to half of all older men continued to participate in the labor market after they turned 65; by 1981, this figure had declined to less than one-fifth of all older men. By comparison, the labor force participation rate for women has been relatively stable. About 8 percent of older women were still in the labor force in 1981, only marginally different from the level of the post-World War II period. There has been a continuing increase in the proportion of older Americans who are outside the labor force; although an increasing share may be able to work after the conventional retirement age, smaller proportions do so.

Nonetheless, almost 3 million older persons (1.8 million men and 1.1 million women) were employed in October 1981. Older workers were more likely than workers in general to be employed in agriculture (10.3 percent of workers 65 years and over were employed in agricultural industries, compared with 3.6 percent of all workers). A considerably larger share of older nonagricultural workers were self-employed (21.1 percent) than was true for all nonagricultural workers (7.4 percent).

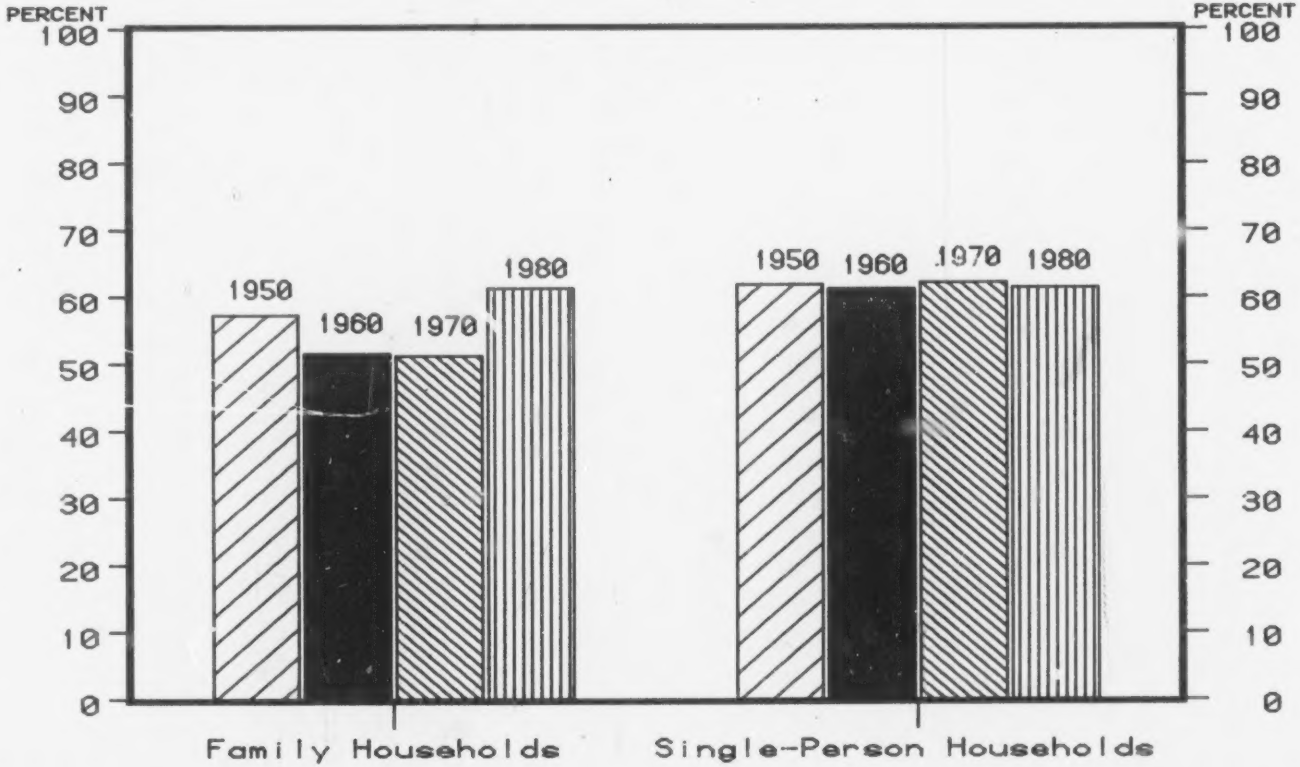
Nearly half of older nonagricultural workers were employed part time by choice; a roughly equal proportion worked on full-time schedules. The amount of benefits from social security and the value of leisure time are factors in the decision to work at all or to work part time voluntarily, but the labor market data do not provide information on specific reasons for voluntarily working part time.

There were about 650,000 college graduates in the population aged 65 years and over in 1959, of whom about 37 percent were still in the labor force. Twenty years later (1979), the number of older college graduates had risen to nearly 2 million persons, of whom only a fifth were still in the labor force, leaving a highly educated "retired" component of about 1.5 million persons. Thus, the number of economically inactive older college graduates has nearly quadrupled in the past two decades.

2. Money Income of the Aged

The average before-tax income levels of the aged are lower than those for the total population. Household, family, and per capita incomes of the aged are all below comparable averages for all households, families, and persons; however, each of these measures show markedly different relationships.

CHART 9. MEDIAN INCOME OF HOUSEHOLDERS AGED 65 YEARS AND OVER AS A PERCENT OF MEDIAN INCOME FOR ALL HOUSEHOLDS



Source: U.S. Current Population Report, Series P-60, Nos. 9, 37, 97, and 127.

The average, or mean, income for all aged households in 1980 was $12,630, about 60 percent of the mean of $21,060 for all households. Aged-married-couple families had a mean income of $17,170 in 1979, about 66 percent of the $26,130 mean for all married-couple families. In sharp contrast, the per capita annual income of the aged in 1980 was $7,510, about 96 percent of the overall per capita income of of $7,790.

The low mean income for all older person households is due, in large part, to the fact that about 45 percent of the aged households are single-person households and therefore, can only contain one income recipient. The slightly higher ratio for married-couple families reflects to a small extent the effect of having two or more income recipients.

The per capita income of the elderly is much closer to the average for the total population than the means for households and families because the overall per capita income takes account of children (who in general have little or no income); on the other hand, the computation for the elderly includes only persons aged 65 years and over, virtually all of whom have some income.

As noted initially, these comparisons are based on before-tax money income levels. Because some of the major sources of income received by the elderly are nontaxable, such as social security benefits, and because the elderly, in general, pay lower income tax rates on smaller amounts of income, the comparisons of incomes of the elderly to the population may be more appropriate on an after-tax basis. For per capita income, these comparisons of after-tax incomes are likely to show slightly higher levels for the aged than for the total population.

The elderly accounted for about 11 percent of the total population and received about 11 percent of the income in 1980. About 92 percent of income received by the elderly was obtained from four major sources—social security, retirement pensions, earnings from working, and interest on savings. Of the total of $185.4 billion received by the elderly, 43 percent was from social security, 18 percent from other retirement pensions, 16 percent from earnings, and 15 percent from interest on savings. Social security was received by 9 of every 10 elderly persons in 1980. About two-thirds of the elderly received interest on savings, one in four received other retirement pensions, and about 15 percent received earnings from working (see table 4).

On average, the income of the elderly relative to the total population changed slightly during the decade of the seventies, a period marked by stretches of high unemployment and inflation. The mean income for "elderly" households in 1970 was $5,420, 54 percent of the overall mean of $10,000. In 1980, this ratio had risen to 60 percent. The per capita income of the elderly in 1970 was $2,990, compared to $3,180 for the overall per capita; a ratio of 96 percent, the same as for 1980.

TABLE 4.—MEDIAN MONEY INCOME OF OLDER PERSONS BY SOURCE: 1980

Population, number in thousands	Total number	Percent of total population 65 plus	Actual median annual income
Persons 65 and over with income source	24,353	95.3	$5,213
Wage or salary income	3,343	13.1	10,249
Nonfarm self-employment income	650	2.5	10,920
Farm self-employment income	256	1.0	9,429
Property income, total	16,566	64.8	6,664
Interest	16,056	62.9	6,733
Dividends, net rent, and estates or trusts	5,579	21.8	9,133
Social security and railroad retirement income	22,332	87.4	5,190
Supplemental security income	1,934	7.6	3,076
Public assistance or welfare income	314	1.2	3,461
Veterans, unemployment, and workmen's compensation income	1,354	5.3	5,629
Veterans' payment income only	1,007	3.9	4,897
Unemployment compensation income only	116	.5	8,282
Workmen's compensation income only	221	.9	7,843
Other combinations	10	0	10,515
Retirement income, total	6,558	25.7	9,143
Private pensions or annuities	4,173	16.3	8,629
Military retirement pensions only	176	.7	10,543
Federal employees' pensions only	726	2.8	11,469
State or local employees' pensions only	1,307	5.1	9,426
Other combinations	176	.7	17,649
Other income, total	374	1.5	8,052
Alimony or child support only	11	0	4,983
Regular contribution only	58	.2	4,594
Anything else only	302	1.2	8,697
Other combinations	2	0	6,500
Combinations of income types:			
Earnings	4,105	16.1	10,131
Earnings and property income	3,137	12.3	11,570
Government transfer payments	23,235	91.0	5,140
Government transfer payments only	6,095	23.9	3,248
Government transfer payments and other incomes	17,141	67.1	6,552
Public assistance or supplemental security, or both	2,107	8.2	3,113
Social security or retirement income, or both	22,815	89.3	5,260
Social security or supplemental security, or both	22,791	89.2	5,087
No income	742	2.9	1

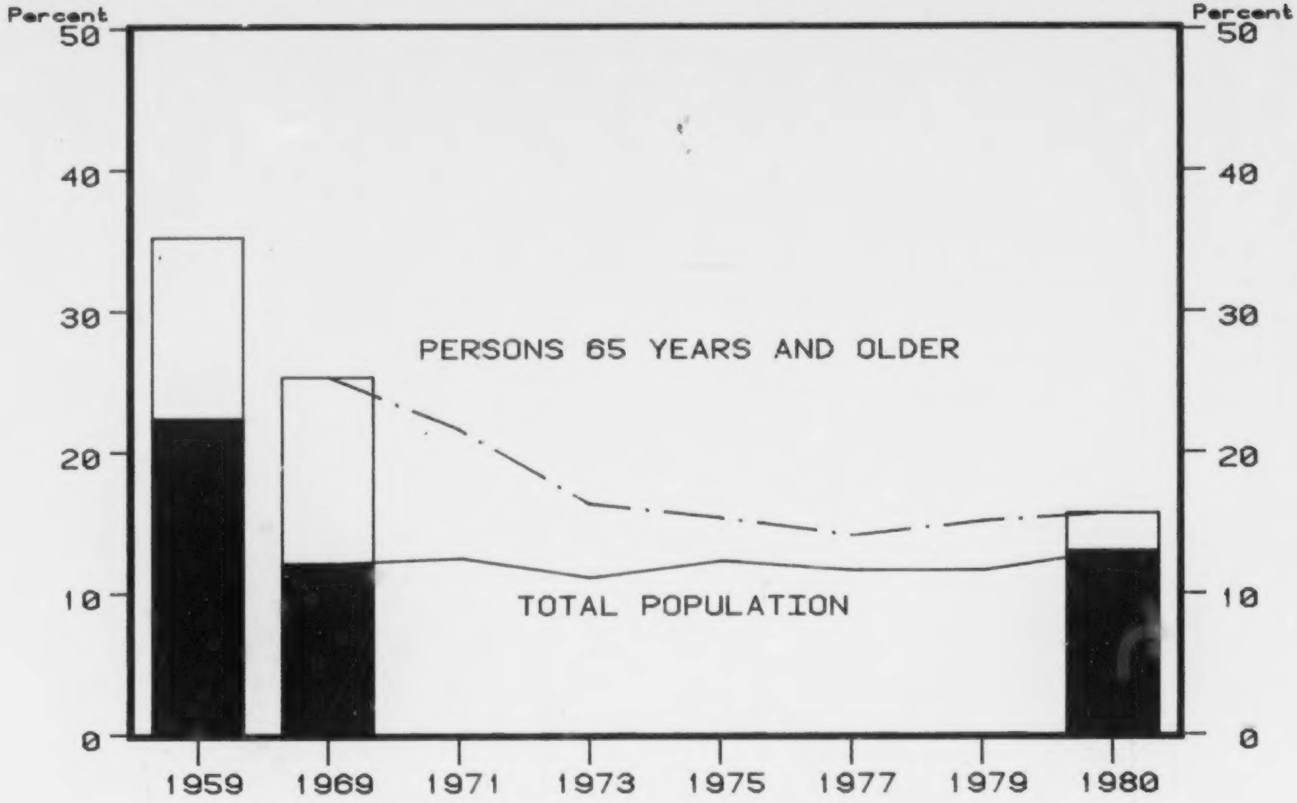
Source: U.S. Census Bureau.

3. POVERTY

The proportion of the total United States and older population with incomes below the officially defined money income poverty level declined significantly over the last two decades. The proportion of all persons below the poverty level dropped from 22.4 percent in 1959, to 12.1 percent in 1969. The proportion edged unevenly lower through the late 1970's but then rose to 13 percent in 1980 (see chart 10).

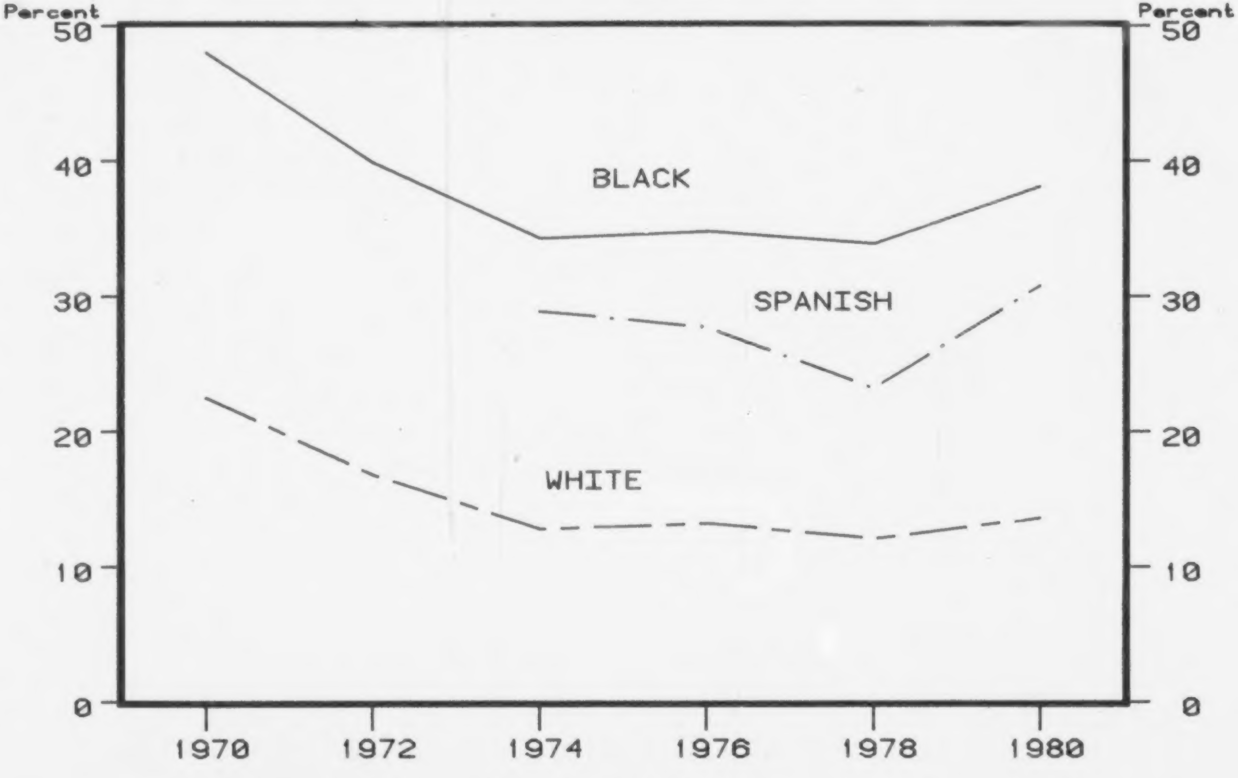
Poverty rates for the older population began at a much higher level and declined more persistently than for the overall population. In 1959, 35.2 percent of the persons aged 65 and over had incomes below the official poverty level; a decade later, the proportion had dropped to 25.3 percent, and in 1980 it stood at 15.7 percent. Because incomes did not rise as fast as consumer prices during 1979 and 1980, the number and proportion of older persons with incomes below the poverty level rose in those 2 years. By 1980, about one in six older persons had an annual income below the poverty level. (The average income level for a single person 65 years or older was $3,949.) Older black and Hispanics historically have been, and continued to be, far more likely to be living on an income below the official poverty level; close to two-fifths (38.1 percent) of all older blacks and approximately a third (30.8 percent) of all older Hispanics were so classified in 1980 (see chart 11).

CHART 10. PERCENT OF OLDER AND TOTAL POPULATION WITH INCOME BELOW THE OFFICIAL POVERTY LEVEL, SELECTED YEARS 1959 - 1980



Source: U.S. Current Population Report, Series P-60, No. 127.

CHART 11. PERCENT OF PERSONS AGED 65 YEARS AND OLDER WITH INCOME BELOW THE OFFICIAL POVERTY LEVEL BY RACE AND ETHNICITY: 1970 - 1980



Source: U.S. Current Population Report, Series P-60, No. 127.

Despite increases in their poverty rate in 1979 and 1980, the elderly were substantially better off in 1980 than in 1970. They were one of very few population subgroups to experience significant reductions in poverty rates during the 1970's. Part of this improvement can be attributed to increases in social security benefit levels, and particularly to the indexing of benefits which began in 1972. However, the poverty rate for persons 65 and over is still slightly higher than the national average and an additional 10 percent of all older persons have incomes which exceed the poverty level by less than 25 percent.

4. NONCASH BENEFITS TO THE ELDERLY

While the period of the 1970's was characterized by very slow growth in real money income, benefits from noncash programs grew rapidly. In general, recipients of noncash benefits in the form of food stamps, public housing, medicaid, and medicare have increased substantially. In 1980, about 98 percent of the 16.9 million elderly households were benefiting from one or more of these programs; 16.3 million of these households benefited from medicare alone. About 3.5 million elderly households received either food stamps, public housing, or medicaid benefits in 1980. Medicaid was the single largest of these programs, benefiting 2.5 million elderly households. Food stamps were received by about 1.2 million of these households in 1980. These food stamp recipients received an average of $435 in food stamps in 1980, about 10 percent of their average money income level of $4,630.

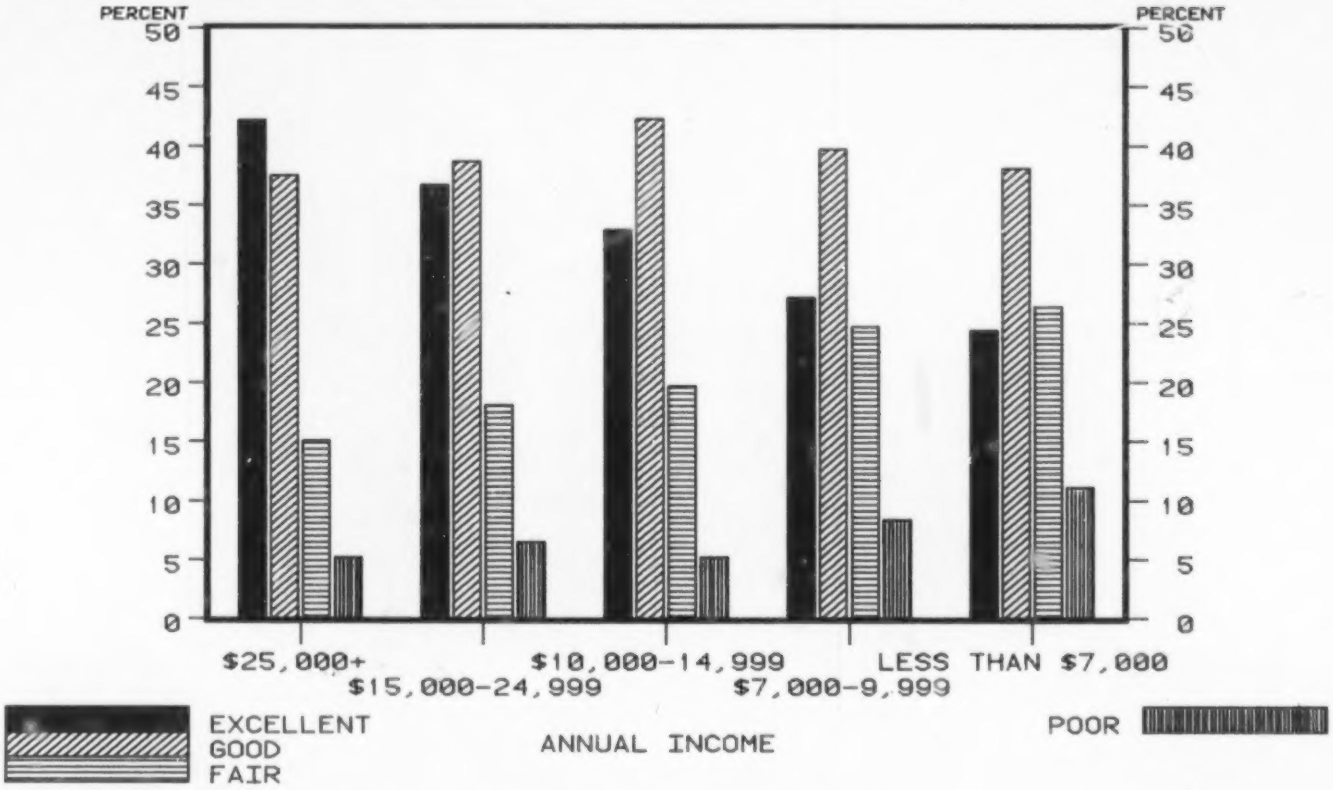
D. HEALTH STATUS

1. SELF-ASSESSMENT OF HEALTH

Older persons are somewhat less likely than other persons to describe their health as good or excellent, but the proportion of older persons who describe their health in this way is far greater than the proportion who describe their health as fair or poor. In 1979, among persons 65 years of age and over, 29 percent described their health as excellent, 39 percent described their health as good, 23 percent described their health as fair, and 9 percent described their health as poor. The comparable figures for persons under age 65 were 51, 38, 8, and 2.

On average, self-perception of health, and probably actual health, varies directly with income. In general, the higher the income level, the greater the likelihood of good health care, good nutrition, and good housing and, correspondingly, the greater the proportion reporting excellent health. Conversely, the lower the income level, the greater the proportion reporting fair or poor health. Only a quarter of those older persons with an annual income of less than $7,000, as compared with two-fifths of those with an annual income of $25,000 or more, indicated that they were in excellent health. In contrast, over 11 percent of the lowest income level reported poor health, which is nearly double the proportion of high-income persons reporting poor health (see chart 12).

CHART 12. SELF-ASSESSMENT OF HEALTH BY INCOME RANGE OF PERSONS AGED 65 YEARS AND OLDER



Source: U.S. Department of Health and Human Services, National Center for Health Statistics.

2. HOSPITAL VISITS

Approximately 18 percent of persons 65 and over had one or more short-stay hospital episodes during 1979. The rate for persons between the ages of 17 and 64 was about 11 percent, and for persons under 17, the rate was about 5 percent.

3. VISITS TO PHYSICIANS AND DENTISTS

Four-fifths of the older population visited a physician during 1979. This proportion was only slightly higher than the figure for the total population (75 percent). For older persons who did see a doctor, the average number of visits was about half a dozen (6.3) as compared to just under five (4.7) visits for the total population.

About a third of all persons aged 65 or older visited a dentist in 1979, as compared to about half of the total population. The average annual number of visits was slightly lower for older persons who did go to the dentist; about 1.4 as compared to 1.7 for the total population. The less frequent visits to dentists may be related to tooth loss; it has been estimated that 55 percent of all persons aged 75 or older and 45 percent of persons aged 64 to 74 are toothless. Regardless of the reason for not visiting the dentist, tooth loss can affect physical well-being (loss of ability to eat certain foods), and lead to nutrition-related problems.

Average numbers and proportions of elders' visits to physicians and dentists have basically remained the same, at least since 1975. And yet, even if the number of visits per person continue to be the same for the older population, the projected increase in the number of older persons will affect the number of patients each doctor or dentist serves.

4. CHRONIC CONDITIONS

The aging process brings with it an increase in the prevalence of certain chronic conditions. As medical advances and changes in health practices have eradicated some heretofore commonplace maladies and mortality rates have declined, a larger proportion of the older population is surviving into the age groups where chronic conditions are more frequent. Although many types of conditions are known to be underreported in household surveys, the following figures from 1979 show the strong relationship between age and the likelihood of having one or more serious chronic conditions. Comparing the age groups 45 to 64 and 65 years and older, there are dramatic differences in the rates per 1,000 persons for the following conditions—heart (128 versus 274), hypertension (214 versus 385), emphysema (23 versus 42), arthritis (253 versus 443), visual impairment (58 versus 118), hearing (119 versus 282), and orthopedic impairment (118 versus 162). Given their increasing numbers, the absolute number of older persons that suffer from any given chronic disability is likely to continue to rise. The rise in older persons who have a relatively high prevalence rate for certain types of conditions is likely to have important implications for future medical care needs.

5. MORTALITY/MORBIDITY

More persons are living longer than ever before. The limits of life (or longevity) have not increased appreciably, but there has been a substantial increase in the number of persons living to the extreme older ages. Within the older population, the annual death rate per 1,000 aged 85 and older declined from 216 in 1950 to 169 in 1980 for men, and 191 in 1950 to 134 in 1980 for women.

The mortality rate for men is greater than for women at all ages.

TABLE 5.—RATE OF MORTALITY PER 1,000 PERSONS IN 1980

Age 55 to 64		Age 65 to 74		Age 75 to 84		Age 85-plus	
Male	Female	Male	Female	Male	Female	Male	Female
18.4	9.6	40.6	21.2	94.0	58.4	169.0	134.3

The leading causes of death for the older population in 1980 remain heart disease, cancer, stroke, pulmonary disease, and influenza and pneumonia. Diseases of the heart remain the No. 1 cause of death for persons 65 years of age and over. For persons 65 to 84, cancer is the second, and stroke is the third leading cause of death. For persons 85 and older, stroke and cancer are the second and third most prevalent causes of death. Chronic heart disease, stroke, and cancer are all associated with significant requirements for medical treatment, hospitalization, and convalescent care. The need for these types of health care will grow more pervasive throughout the remainder of this century.

E. GEOGRAPHIC DISTRIBUTION

The geographic distribution of the older population tends to parallel that of the general population. The largest numbers of older persons reside in the most populous States, notably California, New York, Florida, Pennsylvania, Texas, Illinois, and Ohio as indicated in chart 13 and table 6.

However, there are considerable State-to-State variations in the share of the State's population that is 65 or more years of age. Florida, with about 17 percent of its population in the older category far surpasses all other States in its proportion of older persons as shown in chart 14. Other States with sizable proportions of elders include Arkansas, Rhode Island, Iowa, Missouri, and South Dakota.

Nationwide, the older population increased about 28 percent in the 1970's. States which experienced rapid rates of increase in the number of older persons between 1970 and 1980 included Nevada (where it more than doubled), Arizona (91 percent), Florida, Alaska, New Mexico, and South Carolina (see table 6). These increases reflect both the aging of the native population and some apparent migration of older persons from the Plains States and Northeast to the milder climates of the Sunbelt States. Based upon the 1980 distribution of persons aged 55 to 64 and prevailing migration patterns, above-average growth rates of the older population in Sunbelt States appear likely to continue during the 1980's.

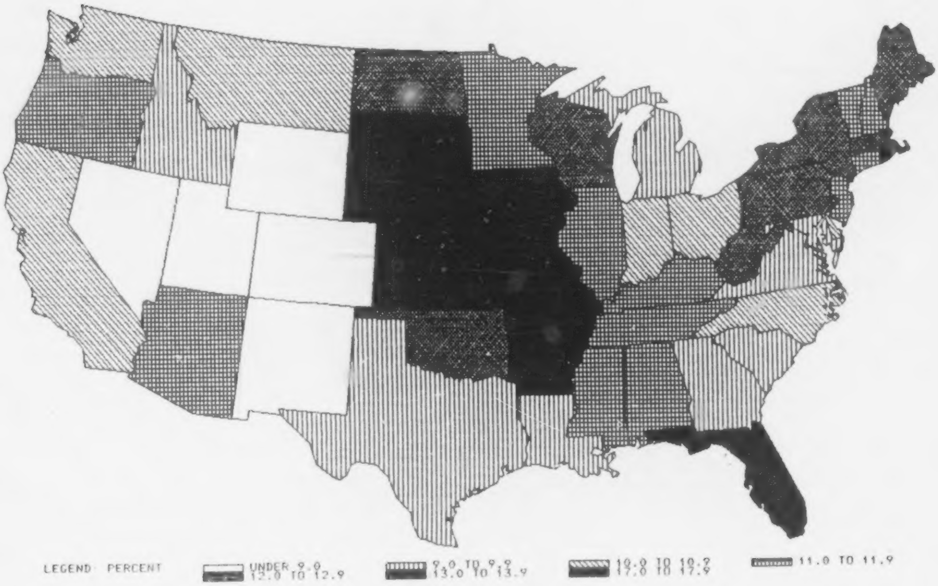
TABLE 6.—NUMBER AND PERCENT OF EACH STATE'S TOTAL POPULATION AGED 65 AND OVER, 1980 CENSUS COUNT (APR. 1)

[Numbers in thousands]

State	All ages		65 plus				Percent increase 1970–80
	Number	Rank	Number	Rank	Percent	Rank	
Alabama	3,890	22	440	19	11.3	24	35.8
Alaska	400	51	12	51	2.9	51	71.4
Arizona	2,718	29	307	28	11.3	25	90.7
Arkansas	2,286	33	312	27	13.7	2	31.6
California	23,669	1	2,415	1	10.2	34	34.8
Colorado	2,889	28	247	33	8.6	46	32.1
Connecticut	3,108	25	365	26	11.7	18	26.7
Delaware	595	48	59	48	10.0	36	34.1
District of Columbia	638	47	74	46	11.6	20	5.7
Florida	9,740	7	1,685	3	17.3	1	71.1
Georgia	5,464	13	517	16	9.5	41	41.6
Hawaii	965	39	76	45	7.9	49	72.7
Idaho	944	41	94	41	9.9	37	40.3
Illinois	11,418	5	1,261	6	11.0	29	15.8
Indiana	5,490	12	585	13	10.7	31	18.9
Iowa	2,913	27	387	24	13.3	4	10.9
Kansas	2,363	32	306	29	13.0	8	15.5
Kentucky	3,661	23	410	21	11.2	27	22.0
Louisiana	4,204	19	404	22	9.6	39	32.5
Maine	1,125	38	141	36	12.5	11	23.7
Maryland	4,216	18	396	23	9.4	42	32.9
Massachusetts	5,737	11	727	10	12.7	10	14.8
Michigan	9,258	8	912	8	9.8	38	21.8
Minnesota	4,077	21	480	18	11.8	17	17.9
Mississippi	2,521	31	289	31	11.5	21	30.8
Missouri	4,917	15	648	11	13.2	5	16.1
Montana	787	44	85	43	10.7	32	25.0
Nebraska	1,570	35	206	35	13.1	7	12.6
Nevada	799	43	66	47	8.2	47	113.0
New Hampshire	921	42	103	40	11.2	28	32.1
New Jersey	7,364	9	860	9	11.7	19	23.9
New Mexico	1,300	37	116	38	8.9	45	65.7
New York	17,557	2	2,161	2	12.3	13	10.8
North Carolina	5,874	10	602	12	10.2	35	46.1
North Dakota	653	46	80	44	12.3	14	21.2
Ohio	10,797	6	1,169	7	10.8	30	17.7
Oklahoma	3,025	26	376	25	12.4	12	25.8
Oregon	2,633	30	303	30	11.5	22	37.1
Pennsylvania	11,867	4	1,531	4	12.9	9	20.8
Rhode Island	947	40	127	37	13.4	3	22.1
South Carolina	3,119	24	287	32	9.2	44	51.1
South Dakota	690	45	91	42	13.2	6	13.8
Tennessee	4,591	17	518	15	11.3	26	35.6
Texas	14,228	3	1,371	5	9.6	40	38.8
Utah	1,461	36	109	39	7.5	50	41.4
Vermont	511	49	58	49	11.4	23	23.4
Virginia	5,346	14	505	17	9.4	43	38.7
Washington	4,130	20	431	20	10.4	33	31.7
West Virginia	1,950	34	238	34	12.2	15	22.7
Wisconsin	4,705	16	564	14	12.0	16	19.7
Wyoming	471	50	38	50	8.0	48	66.7

CHART A

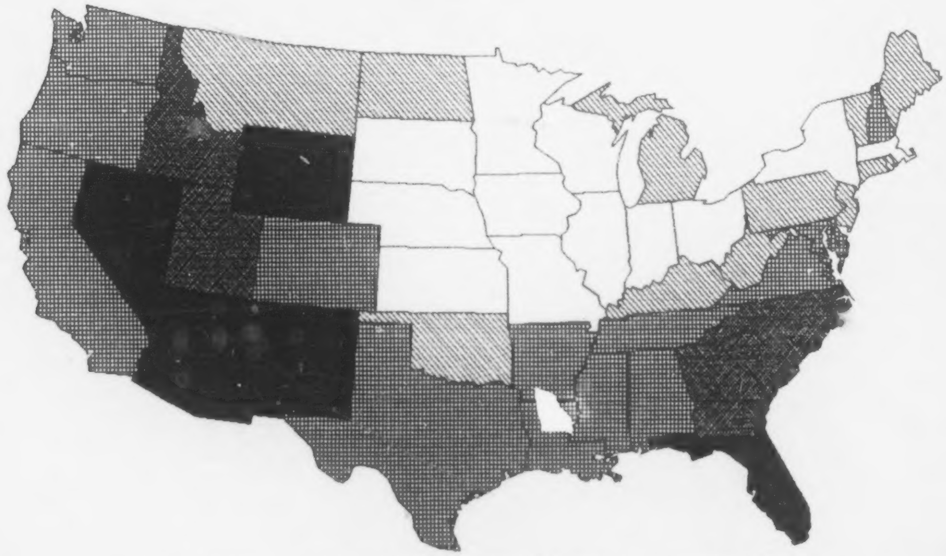
PERCENT OF STATE POPULATION AGED 65 AND OVER
1980


LEGEND: PERCENT
UNDER 9.0
9.0 TO 9.9
10.0 TO 10.9
11.0 TO 11.9
12.0 TO 12.9
13.0 TO 13.9
17.0 TO 17.9

SOURCE: 1980 CENSUS DATA

CHART B

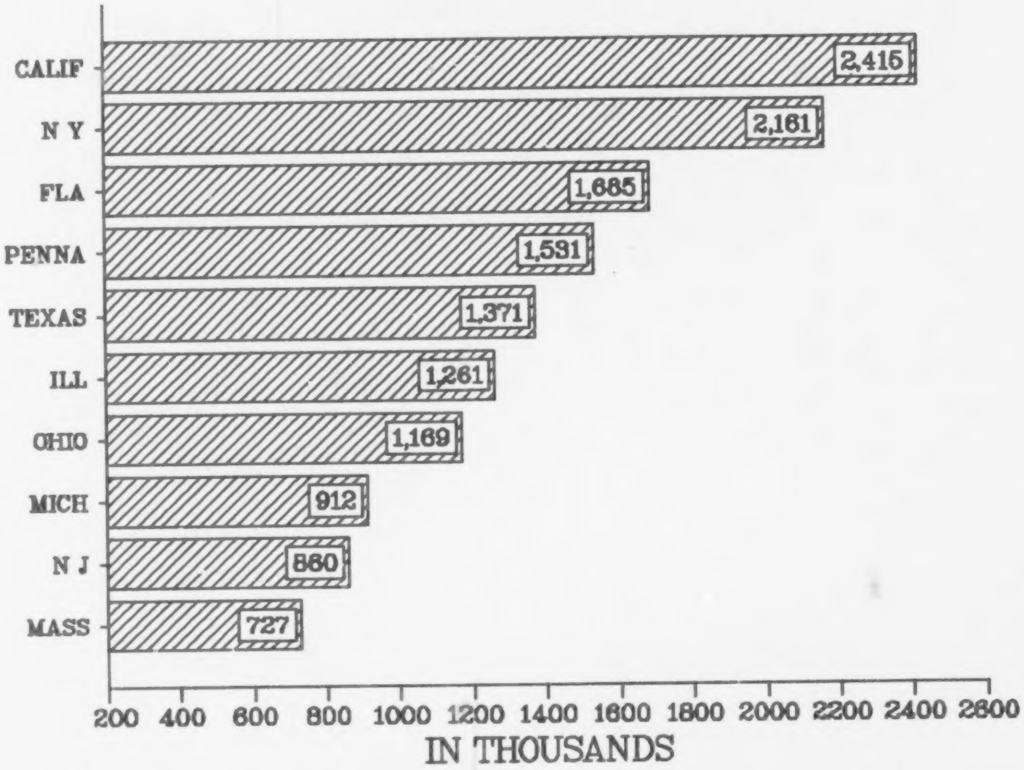
PERCENT INCREASE IN STATE POPULATION AGED 65 AND OVER
1970 - 1980


LEGEND: PERCENT
UNDER 20%
20.0 TO 29.9
30.0 TO 39.9
40.0 TO 55.9
OVER 55%

SOURCE: 1970 AND 1980 CENSUS DATA

CHART 13a

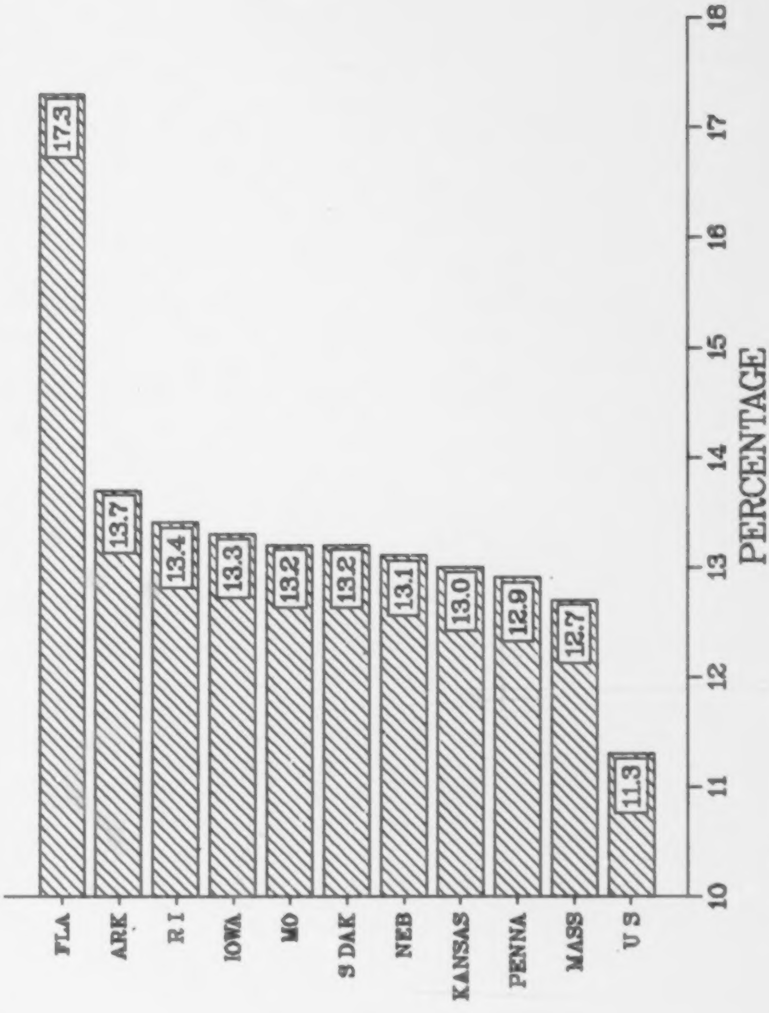
CHART 13. POPULATION AGED 65 AND OLDER, TOP TEN STATES: 1980



Source: U.S. Census of Population, 1980.

CHART 14a

CHART 14. PERCENTAGE OF TOTAL POPULATION AGED 65 AND OLDER, TOP TEN STATES: 1980



Source: U.S. Census of Population, 1980.

1. RESIDENTIAL MOBILITY PATTERNS

Older persons are significantly less likely than younger persons to move from one residence to another. Between 1975 and 1980, a fifth of the older persons changed their residence while half of the population under age 65 moved. Because this discrepancy is so large, the absolute number of younger movers was about 17 times that of the older population during that 5-year period. Thus, there were about 86.2 million younger movers as compared to 4.9 million older movers.

Within the mover population, the pattern of movement is similar for older and younger persons. Over half of those in both age groups who move, move within the same county. About a fifth (22 percent) of each group move to another county within the same State. An additional fifth of each group move to a different State. Older persons who moved across State lines reported that the primary reason they do so is to be closer to relatives, to benefit from a change of climate, and for other family-related reasons.

2. URBAN/SUBURBAN/NONMETROPOLITAN DISTRIBUTION

A larger proportion of older persons than of the total population reside in central cities of metropolitan areas. Elderly persons residing in metropolitan areas are more concentrated within central cities than in the suburbs. Older persons, young adults, and singles of all ages continue to be more highly concentrated in inner-city neighborhoods. And yet, the proportion of older suburbanites has increased since 1950; about a third of the white metropolitan elderly lived in suburban areas. By 1980, this proportion had increased to about two-fifths.

For the general population, suburban growth slowed considerably during the 1970's. Conversely, during that decade, the older population in the suburbs grew at a more rapid rate. Faster growth of the suburban older population may be attributable to several factors including: Residential inertia (i.e., the tendency of a population to grow older in the area where it settled); low mobility rates for current older suburban dwellers; and net immigration of older persons to suburban areas.

3. FARM POPULATION

The absolute number of older persons living on farms had decreased from about 1 million in 1960, to about 746,000 in 1980. Yet, their proportion of the total farm population rose from about 8 percent in 1960, to about 12 percent in 1980, because of the faster outmigration of the young. The remaining population is on average older and growing older, a process that will probably continue for at least the next decade based upon the sizable proportion of the middle-agers currently living in rural farm areas. In 1960, about 10 percent of the farm population was aged 55 to 64. In 1980, about 13 percent of the farm population was in that age group, and an additional 13 percent were aged 45 to 54. The current sex ratio is about 112 older men for every 100 older women on farms. Thus, unlike urban areas, rural areas do not have an extreme excess of older women, although this may change in the future. The sex ratios of the younger age groups more closely resemble those of their urban counterparts.

4. Availability of Transportation

Within the adult population, older persons are potentially the most dependent upon public transportation and concurrently the most likely to become isolated because of transportation inaccessibility. Members of the older population are less likely to have either a driver's license or immediate access to a family car or truck. In 1980, only about 43 percent of the women and 86 percent of the men aged 65 and older were licensed drivers. Conversely, there are about 8,685,000 older women and 1,387,000 older men who are dependent upon either public transportation or the benevolence of family and friends.

Another indicator of transportation accessibility is the number of households headed by an older person that own either a car or small truck. In 1976, about two-thirds of the households headed by an older person owned one or more cars or trucks, while about 5 million such households had no car or truck. This is particularly the case in suburban and rural areas. If these vehicle accessibility patterns persist, along with the greying of the suburbs, then pressure may increase on the public transportation systems there (see chart 15).

F. OLDER VETERANS

The estimated number of military veterans reached an all-time high of approximately 30 million in 1980. Of these, about a tenth (3.2 million) are at least 65 years old. In just 10 years, the number of older veterans is projected to more than double to an estimated 7.3 million (see chart 16).

The Veterans Administration currently operates the largest health care system in the United States. Older veterans with service-related disabilities are eligible for free hospital and nursing home care, regardless of their ability to pay for these services. The cost of health care for older veterans will become increasingly important and problematic as this population ages. In 1990, barring policy changes, more than half of all American men over 65 years of age will be eligible for veteran benefits.

In 1990, the proportion of "young-old" veterans should comprise about four-fifths (81.6 percent) of the older veteran population. However, by the turn of the century, close to half (44.6 percent) of the projected 8.5 million older veterans will fall into the older, more disability-prone ages of 75 and above (see chart 16).

G. CRIMINAL VICTIMIZATION

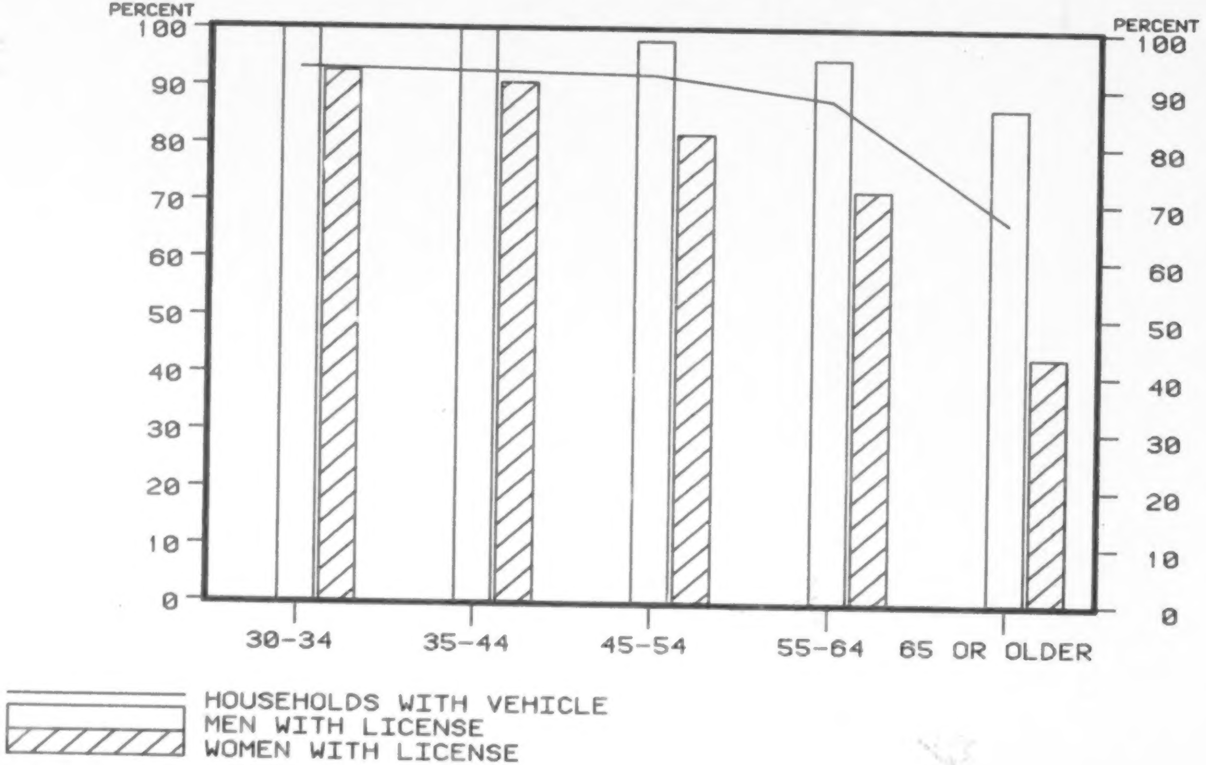
Criminal victimization rates for older persons are lower than those for other age groups. However, older Americans sustained an average of about 169,000 violent crimes (robberies, assaults, and rapes) per year between 1973 and 1980. Victimizations involving their personal and household property were much more numerous, averaging about 1.5 million common thefts (personal or household larcenies), about 750,000 residential burglaries, and about 80,000 motor vehicle thefts annually. Few meaningful upward or downward changes in the incidence of crime against older persons can be detected between 1973 and 1980.

However, some small groups within the older population experience high victimization rates. Black, unmarried men living in central cities of metropolitan areas suffer from considerable victimization, and the nonwhite aged apparently have a rate of victimization that averages about two times that of older whites. Males run a risk that is about 70 percent greater than that of females (see chart 17).

Personal crimes against the elderly that are violent in character—assaults robberies, or rapes—occur at the annual rate of about 8 per every 1,000 individuals age 65 and over. That is about a fifth of the average rate of persons under age 65. Of personal thefts from the elderly, about 85 percent were away from home and involved no direct contact between victim and offender. The remaining larcenies, however, amounting to about 69,000 victimizations annually are almost evenly divided between purse snatchings and pocket pickings that may involve contact with the offender and could lead to more violent outcomes.

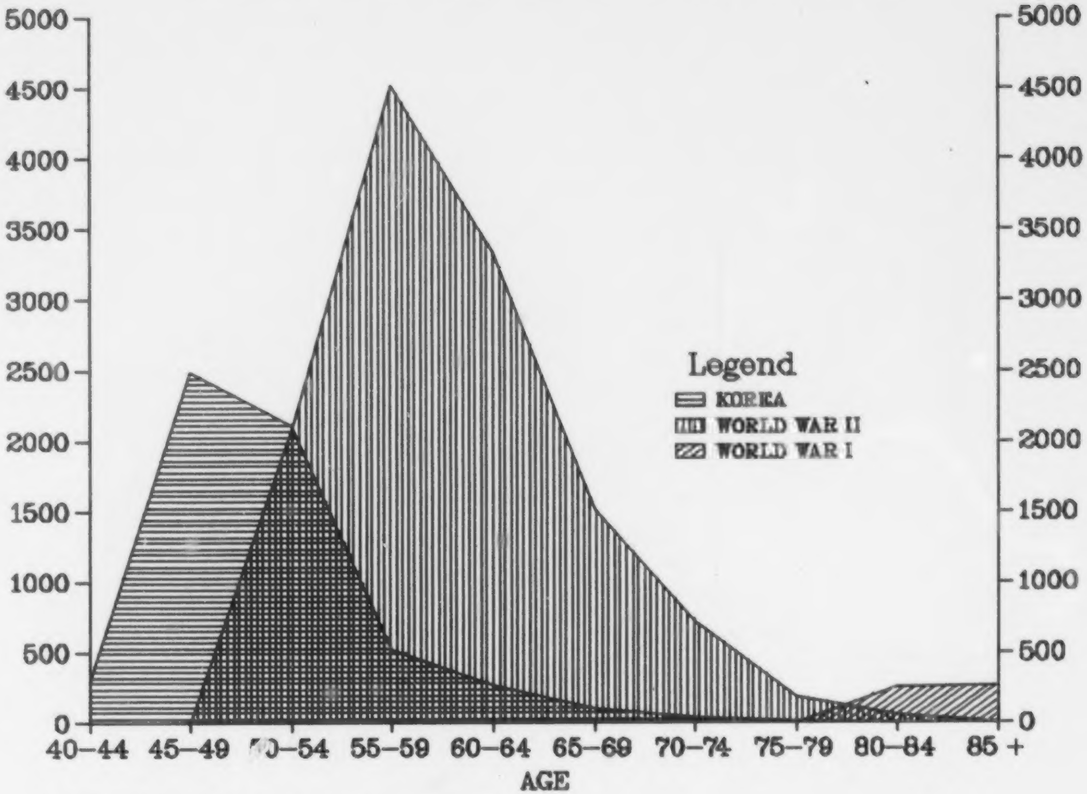
Future victimization trends for the elderly will be influenced by both the different sizes of the older and offender populations, and by their respective geographical distributions. For example, the elderly population will be growing rapidly while the age groups that historically contribute most to the offender population will be decreasing. Because suburban crime rates are lower than center city crime rates, as more suburbanites age in place, concurrent changes in average crime rates for older persons may occur.

CHART 15. AVAILABILITY OF MOTOR VEHICLES AND DRIVERS LICENSES BY SEX FOR SELECTED AGE GROUPS: 1980



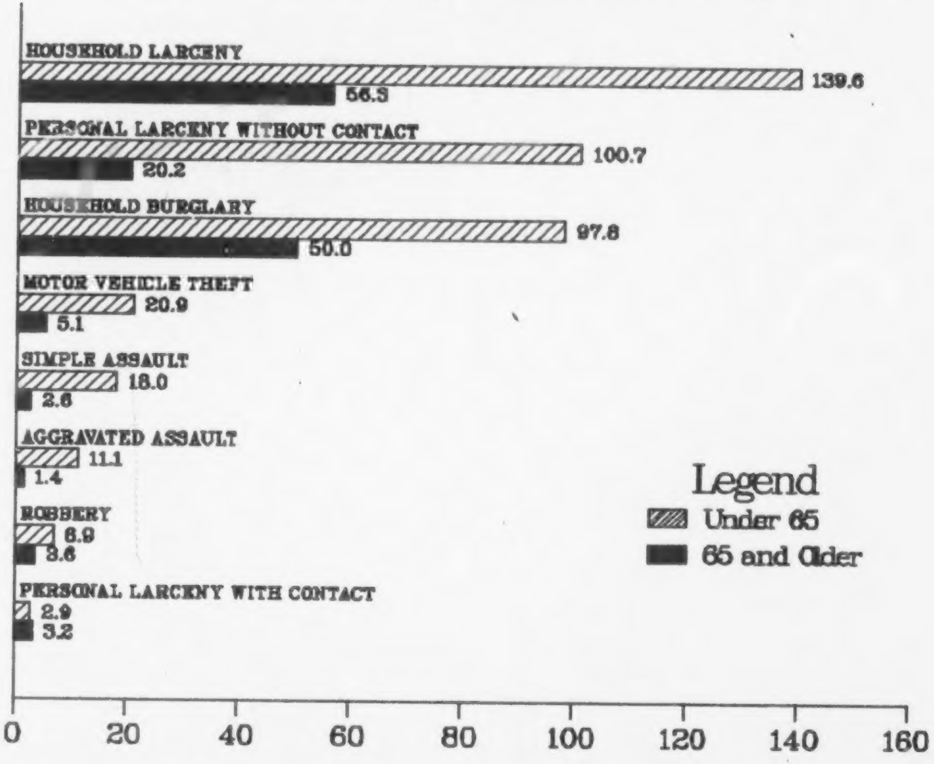
Source: U.S. Department of Transportation, Federal Highway Administration; U.S. Department of Housing and Urban Development, Annual Housing Survey.

CHART 16. ESTIMATED NUMBER OF VETERANS
BY AGE AND PERIOD OF SERVICE: 1980



Source: Veterans Administration, Research Division.

CHART 17. CRIMINAL VICTIMIZATIONS PER 1000 PERSONS
BY AGE GROUP
(annual average rate: 1973–1980)



Source: U.S. Department of Justice, Bureau of Justice Statistics, Bulletin.

Chapter 2

ECONOMIC PERFORMANCE, FEDERAL BUDGET, AND TAX POLICY

A. U.S. ECONOMIC PERFORMANCE DURING 1981

Little more than a year after the 1980 recession, the U.S. economy is in the throes of another slump.[1] By any reckoning, this development has to be a disappointment, imposing new hardships on many Americans.

When the 1980 recession ended, it was widely anticipated that the economic recovery would be sluggish. But few analysts expected that the shortest recession on record would be followed by a very brief recovery. As the year began, most forecasters expected that the economy would be weak during the first half of 1981 and expand quite vigorously during the second half. Instead, extraordinary rapid growth was recorded in the first few months of the year and economic activity has been soft since. Data for the final quarter of 1981 show the economy declining very sharply.

To the extent that the poor economic performance can be blamed on any single phenomenon, many analysts would single out high interest rates. During 1981, the cost of money reached unprecedented heights. For example, the rate on 13-week Treasury bills climbed to 16.75 percent, and the prime bank lending rate was at or over 20 percent for much of the year. Why were interest rates so high?

The popular impression is that interest rates were high because the Nation's central bank, the Federal Reserve Board (FRB), was pursuing a very restrictive monetary policy. It is not, however, clear just how tight monetary policy was, and, in any event, the supply of money was only one factor in the interest rate picture. The narrowly defined money supply (M-1) [2] exhibited moderate growth, but was near the bottom of the target growth range established by the FRB. During 1981, M-1 increased by just over 6 percent—about the same rate as in 1980. Most of the 1981 growth, however, occurred at the beginning of the year. Between May 1981 and November 1981, M-1 was essentially unchanged, fluctuating within a very narrow range.

Other measures of the money supply do not indicate a high degree of stringency. A more broadly defined measure of the money stock, M-2,[3] rose by about 10 percent in 1981. This was at the top of the

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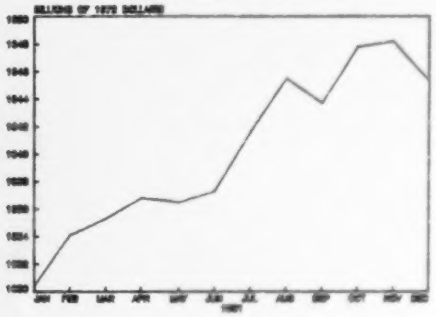
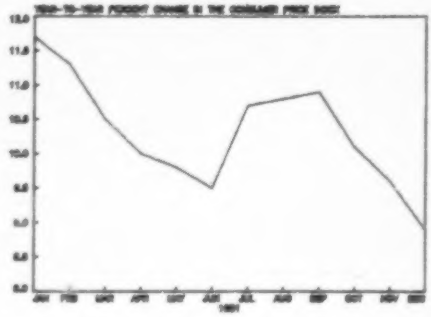
[1] This section, prepared by the Congressional Research Service of the Library of Congress, is based on economic data and other information available as of Jan. 22, 1982.

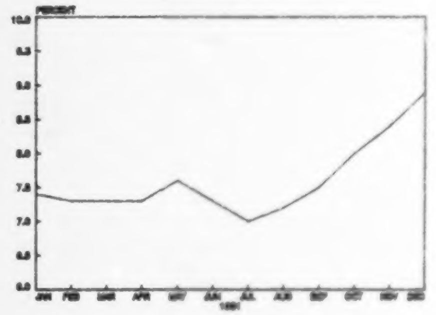
[2] M-1 consists of checking accounts, currency in circulation, traveler's checks, negotiable order of withdrawal (NOW) and automatic transfer service (ATS) accounts, credit union share drafts, and demand deposits at mutual savings banks.

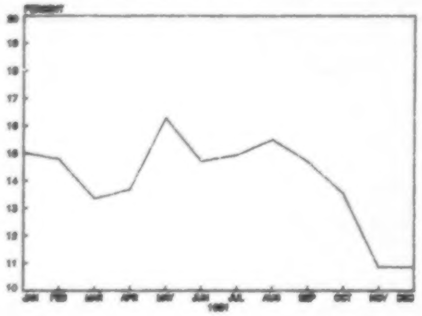
[3] M-2 consist of M-1 plus savings and small-denomination time deposits, overnight repurchase agreements at commercial banks, overnight Eurodollars held by U.S. residents, and money market mutual fund shares.

ECONOMIC PROFILE OF 1981


REAL DISPOSABLE INCOME


INFLATION RATE


UNEMPLOYMENT RATE


RATE ON 91-DAY TREASURY BILLS

FRB's target growth range, and was somewhat more rapid than 1980's rate of increase. The divergence in growth rates between M–1 and M–2 is a reflection of the increase in money market mutual funds (MMMF), which are included in M–2 but not M–1. Since the end of 1980, assets of MMMF's have risen from $74 billion to about $182 billion. This growth has been fueled by the prevailing high interest rates on money market instruments which are otherwise generally unavailable to individual investors.

Another factor, which has largely been overlooked, contributing to high interest rates has been strong demand for credit, particularly short-term credit. Between May 1981 and October 1981, commercial and industrial loans outstanding at large commercial banks advanced at about a 19-percent annual rate. At the same time, the growth in the supply of credit slowed. Consumers have also been borrowing heavily. During the 12 months ending November 1981, consumer installment credit increased by 7 percent, or $21 billion. In 1980, consumer debt was virtually unchanged, rising a mere $1 billion.

Concern over the course of fiscal policy and the Federal Government's actual and prospective demand for credit was also an element in maintaining upward pressure on interest rates. When the Reagan administration took office, it substantially altered Federal Government economic policy. In February 1981, the administration unveiled an economic program intended to simultaneously stimulate economic growth and reduce inflation. The program, consisting of cuts in Federal Government nondefense expenditures, increased spending for national security, lowered personal and corporate tax liabilities, regulatory reform, and a steady reduction in money supply growth, was based, in part, on the belief that a large and growing Government sector produces an inflationary bias in the economy and diverts economic resources from the more efficient private sector.

Some participants in the credit markets, however, apparently viewed this program with some trepidation. In April 1981, Henry Kaufman, chief economist with Salomon Brothers, a New York-based investment bank, voiced his concern about higher levels of defense spending, combined with Federal tax cuts being very stimulative, even if partially offset by reductions in nondefense outlays. Kaufman was skeptical of arguments that the tax cut would stimulate savings and investment and increase economic activity to such an extent that the Government would suffer no loss in revenue.

He stated:

> The new fiscal policy * * * is exceedingly expansionary, does not pursue a course that fights inflation vigorously along the way, and will place nearly all the anti-inflationary effort squarely on monetary policy.[4]

The combination of a tax cut, higher defense outlays, and a restrictive monetary policy was, Kaufman feared, a prescription for continuing high interest rates and instability in the financial markets. Kaufman believed the Federal Government would continue to record large budget deficits. As a consequence, the Government's appetite for credit would crowd out other borrowers. Business, in particular, would be denied the funds needed to finance increased levels of capital investment.

Initially, the weakness in the economy was confined to credit-sensitive sectors, notably automobiles and housing. Between the first and third quarters of 1981, while the real gross national product (the market value of all goods and services produced in the United States adjusted for price change) fell by $4 billion (in 1972 dollars), residential investment slumped nearly $8 billion, and expenditures for motor vehicles and parts dropped nearly $5 billion. Consumer spending for nondurable goods and services and the accumulation of business inventories partially offset those declines.

Economic data for the latter months of 1981 indicated that the vigor of other sectors of the economy had begun to deteriorate. Figures for industrial production were particularly disturbing as every major market group, with the exception of defense and space products, registered a decline. In the last months of 1981, only one-third of the 235 industries included in the industrial production statistics reported higher production than in the previous month. By contrast, at mid-year 1981 about two-thirds had reported higher output.

A worsening of economic conditions was also indicated by a sharp climb in the unemployment rate. Between July and December 1981, the percentage of the labor force out of work rose from 7 percent to 8.9 percent, the highest level since 1975. The number of unemployed workers exceeded 9 million in December 1981, the largest number ever recorded. Blue-collar workers were particularly hard hit by layoffs. Their rate of joblessness advanced from 9.4 percent in July 1981 to

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[4] Kaufman, Henry. "The Potential for Conflict in National Policies and in Financial Markets," New York, Salomon Brothers, Apr. 22, 1981. p. 4.

12.9 percent in December 1981. Unemployment among white-collar workers rose only slightly, reaching 4.6 percent at year-end.

The pattern of economic distress spreading from one industry to another, which appears to have occurred in the second half of 1981, is fairly typical of postwar slumps. Imbalances in one sector of the economy result in curtailed activity and layoffs in that sector, which tends to have a snowballing effect on other sectors. For example, if automobile inventories become too large, automakers will shut down assembly lines. This, in turn, will trigger production cutbacks by auto suppliers such as steel, aluminum, glass, and tires. Suppliers to those industries will then be forced to cut their output. In addition, of course, the workers who are laid off will reduce their spending so that retail outlets and consumer goods manufacturers will experience declines in sales and will, in turn, increase the number of layoffs in these industries. In this fashion, production cutbacks ripple through the economy.

Toward the end of 1981, interest rates dropped significantly, raising hopes, in some quarters, that the economy would begin to recover in early 1982. Short-term interest rates fell by about 5 percentage points and long-term rates declined roughly 2 percentage points between late September and early December 1981.

One favorable economic development during 1981 was a moderation in the rate of price advance. The Consumer Price Index for All Urban Consumers (CPI–U) rose 10.4 percent. Although this is still very high by historical standards, it is an improvement over 1980 when this inflation indicator advanced by 13.5 percent. Other price measures have shown a similar deceleration. The table below presents the 1980 and 1981 rates of gain in selected components of the CPI–U. All of the major components of the CPI–U have increased at a lower rate in 1981 than in 1980. In particular, an easing in the demand for energy products resulted in an excess supply of those commodities and relieved the upward pressure on energy prices. The energy component of the CPI–U increased 13.5 percent in 1981, less than half the rise posted in 1980. Also contributing to the easing of inflation was a slower rate of gain in the CPI–U's housing component. This was primarily due to mortgage interest rates increasing less in 1981 than in 1980.

TABLE 1.—CONSUMER PRICE INDEX FOR ALL URBAN CONSUMERS

[Percent change from previous year]

	1980	1981
All items:	13.5	10.4
Food and beverages	8.5	7.8
Housing	15.7	11.5
Apparel and upkeep	7.1	4.8
Transportation	17.8	12.1
Medical care	10.9	10.8
Entertainment	8.9	7.8
Special indexes:		
Energy	30.9	13.5
All items less food	14.6	10.9
All items less mortage interest	11.7	9.1
All items less medical care	13.6	10.3
All items less energy	11.6	10.0
All items less food and energy	12.5	10.4
Experimental index: X–1, all items	11.2	9.5

Source: U.S. Department of Labor, Bureau of Labor Statistics.

Despite the softness in the economy, personal income increased by more than 11 percent in 1981, slightly more than the gain posted in 1980. The 1981 advance was greater than the inflation rate, so that in the aggregate, real income was up as well. Much of the gain in income, however, was due to rising transfer payments and interest income. Interest income was the fastest growing source of personal income. Growth of wages, salaries, and proprietors' income was relatively sluggish. Aftertax income also rose, and was relatively strong in the wake of the October 1981 Federal income tax cut. These data suggest that there is a reservoir of consumer purchasing power which could help propel the economy forward.

B. THE FEDERAL BUDGET AND OLDER AMERICANS

The year 1981 will be remembered as a year dominated by debate on the Federal budget. The individual chapters in this annual report document the specific budgetary changes that were made and their effect on programs serving elderly persons. Rather than attempt to detail each budgetary decision, this section will outline the general contours of aggregate Federal expenditures relating to the elderly.

The size of program expenditures for the elderly and their rank within the Federal budget is a measure of the priority placed upon the welfare of older Americans by the Congress. According to current estimates made by the Office of Management and Budget, between 25 and 30 percent of the total Federal budget is now spent on programs directly helping the elderly.

Frequently, estimates about the share of the budget devoted to the elderly vary because of the methodological problems of measuring how much of a given program directly affects elderly persons. For example, there are four major programs that specifically benefit older Americans: Social security old-age and survivors insurance, medicare, supplemental security income, and the programs administered by the Administration on Aging. Numerous other Federal programs benefit elderly persons in a substantial way, e.g., medicaid, disability insurance, veterans' benefits, civil service and military retirement, food stamps, and low-income energy assistance. There are varying ways to measure the degree to which the elderly participate in such programs—depending, for example, on whether the elderly are defined as those age 55, 60, or 65 and older, whether benefits to dependents and young survivors of elderly are included, and whether the cash equivalent value of services or in-kind benefits like medical care are included, based upon a particularly economic model. Clearly, the conclusions drawn by any such analysis simply reflect the methodology employed.

Table 2, prepared by the Office of Management and Budget, lists the programs and program expenditures which can be identified as benefiting persons age 65 and older.

Aside from the methodological problems associated with measuring aggregate Federal expenditures for the elderly, there are related problems of interpretation. While the Federal Government is spending far more for these programs than it spent 10, 20, or 30 years ago, the graphic presentation of such historical numbers, which usually depicts a sharply rising curve, is often misleading. It is often used to

TABLE 2.—MAJOR FEDERAL BUDGET OUTLAYS BENEFITING THE ELDERLY

[Dollars in billions [1]]

	Fiscal year 1981	Fiscal year 1982	Fiscal year 1983 (as proposed)
Social security	$97.1	$109.7	$121.2
Railroad employees	4.1	4.0	(2)
Federal civilian employees	[3] 11.6	12.8	13.9
Military retirement	2.0	2.2	2.4
Coal miners	1.2	1.3	1.2
Supplemental security income	2.6	2.7	3.1
Veterans' compensation and pensions	3.7	4.0	4.3
Medicare	35.8	41.8	46.9
Medicaid	6.0	6.4	6.4
Food stamps	.9	.9	.7
Subsidized public housing	2.3	3.3	3.5
Other [4]	6.0	6.0	6.0
Total dedicated elderly resources	173.3	195.1	209.7
Percent of total Federal outlays	26.4	26.9	27.7

[1] Fiscal year 1981–83 reflects outlays, including effects of proposed legislation, for recipients aged 65 and over in mos cases. These are estimates based on Federal agency information—which may be administrative counts, samples, or les accurate estimates from Federal, State, and program staff. Other Federal programs that assist the elderly (e.g., consume activities, USDA extension services, National Park Services) have been excluded due to data limitations.

[2] Social security benefits for rail workers, funded by SSA but paid from the railroad retirement account, would be funded and paid directly by SSA in 1983 and outyears. Rail industry pension benefits would be administered by a private rail pension plan.

[3] Reflects revised estimating technique adopted by agency.

[4] Other category includes AoA, NIA, ACTION, White House Conference on Aging, other Federal health programs, other retired, disabled, and survivors benefits, FmHA, and elderly housing loans programs, social services, energy assistance, unemployment, and other miscellaneous discretionary program outlays.

Source: Office of Management and Budget, Feb. 16, 1982.

convey the idea that Federal spending for the elderly is out of control and that the elderly consume a far larger portion of the budget than their numbers warrant.

A more sophisticated analysis of the expenditure data supports a different conclusion. By far the largest single Federal program is social security, accounting for nearly 60 percent of Federal outlays for the elderly. The social security system, however, is essentially self-financed out of payroll taxes paid by workers and employers. As a self-contained income transfer system, it is not subject to the same budget decisions as can be made with respect to the discretionary funding of other programs. If social security were excluded from the unified budget, as it was before fiscal year 1969, on-budget expenditures for the elderly would be less than half of what they now appear to be.

Although there were reasons for including social security within the unified Federal budget, its inclusion raises serious analytical problems when it is compared on the same terms to the rest of the budget. For example, the horizon of the budget process is only 1 year—with 5-year forecasts at most. The horizon of social security is a working career and retirement, and its trustees project estimates of income and outgo over a 75-year period.

Social security is a long-term commitment. When the benefit provisions were enacted and the financing schedules set by law, it was clearly understood that the benefits from these programs would rise with the growing numbers of retired persons, rise with the standard of living, and rise to keep pace with inflation. Thus, what appears from aggregate budget numbers to be a striking growth in expenditures for the elderly is only the normal maturation of previously legislated retirement income commitments. Further, although the Federal

Government is primarily funded through general tax revenues paid during the tax years, social security and other retirement benefits represent an outlay to beneficiaries in the current budget year in exchange for cumulative payments by individuals over prior years. The retirement programs thus reflect a sense of investment over time, even though they are operated on a pay-as-you-go basis.

Social security is the largest self-funded program, but by no means the only one. If expenditures for all partially self-funded programs are excluded from 1982 Federal spending estimates, less than 4 percent of the Federal budget would be devoted to programs assisting the Nation's elderly.

It can also be misleading to compare current Federal budget expenditures for the elderly with dollars spent in prior years, if no adjustment is made for the changing value of the dollar. For example, per capita spending for the elderly, according to one estimate, rose from $2,100 in 1971 to $7,400 in 1982, implying a 350-percent increase over 11 years. If those sums are adjusted for inflation, the cumulative increase in per capita benefits is less than 47 percent, or an annual average increase of 3.5 percent in real terms.

Further, this 3.5 percent real increase is very largely due to the compound effects of the one-time, 20-percent increase in social security benefits enacted in 1972. That increase was voted by the Congress in response to 1970 census data indicating that 24.5 percent of the Nation's elderly were living on incomes below the poverty level. Today, elderly poverty is at 15.7 percent. In short, the historical expansion of Federal expenditures looks especially sharp in part because Federal income maintenance support was inadequate for many older persons in previous decades.

Finally, any analysis of expenditures must also take account of related income. With regard to the programs that are financed from general revenues, it may be worth noting that older Americans, who constitute 11 percent of our population, pay an estimated 10 percent of Federal income tax revenues.

C. ECONOMIC RECOVERY TAX ACT OF 1981

A major new tax bill was passed by the Congress and then signed into law by President Reagan on August 13, 1981. This legislation makes major, multiyear reductions in taxes in a broad range of categories, including individual income taxes, business taxes, and estate and gift taxes. A whole new range of savings incentives were also built into the new law, the most important of which are discussed in great detail in the retirement income chapter of this report.

In considering this legislation, the Senate Finance Committee gave the following general reasons for the bill in Senate Report No. 97-144:

> The committee believes that a program of significant multiyear tax reductions is needed to insure economic growth in the years ahead. The committee's tax reduction program will help upgrade the Nation's industrial base, stimulate productivity and innovation throughout the economy, lower personal tax burdens, and restrain the growth of the Federal Government. Lower tax burdens on individuals and businesses, maintained over a period of years, will help restore certainty to economic decisionmaking and provide a sound basis for a sustained

economic recovery. The committee has chosen a program of broadly based tax cuts that restores incentives to work, produce, save, and invest, consistent with the goal of eliminating the Federal budget deficit by 1984.

The committee is concerned that the performance of the economy has fallen far below its potential and that this condition will continue if there is no change in policy. The real growth of the economy, which had slowed in 1978 and again in 1979, came to a halt in 1980. Inflation and interest rates rose to exceptional levels and remain high. The unemployment rate rose sharply in 1980 and remains unacceptably high, while rates of productivity and savings have declined or stagnated. At the same time, Federal budget receipts have grown to be a larger percentage of the income generated by the American economy than at any other time in the postwar period. Without significant tax cuts, Federal taxes would continue to rise to 22.8 percent of the gross national product by 1984. The committee believes that this level of taxation is a significant impediment to economic progress and that an expensive program of tax cuts is required at this time.

The committee believes that a program of multiyear tax cuts will help check the growth of Federal expenditures. Federal spending has grown from 19.5 percent of gross national product in fiscal year 1974 to 22.6 percent in fiscal year 1980. This trend must be reversed. Through increased expenditures, the Federal Government has too often intruded into decisions on the allocation of resources. Such intrusions have caused inefficiencies in the workings of the economy, misallocation of resources, uncertainty, and instability. As a result, the free enterprise system has fallen short of its potential for economic growth. The committee believes that its program of tax reductions will increase the likelihood that Federal spending will be restrained over an extended period of time, and will speed economic recovery by reducing governmental interference in the workings of a free economy.

The following two tables, prepared by the Joint Committee on Taxation, illustrate the estimated revenue effects of the new tax law over the period from fiscal year 1981 to fiscal year 1986. Table 3 is a summary table of the revenue effects in the general categories of tax changes: table 4 provides a detailed breakdown of the revenue effect from each change in the law.

TABLE 3.—ESTIMATED REVENUE EFFECTS OF ECONOMIC RECOVERY TAX ACT OF 1981, PUBLIC LAW 97–34: SUMMARY OF ESTIMATED REVENUE EFFECTS, FISCAL YEARS 1981–86

[In millions of dollars]

Provision	1981	1982	1983	1984	1985	1986
Individual income tax provisions	−39	−26, 929	−71, 098	−114, 694	−148, 237	−196, 143
Business tax cut provisions	−1, 562	−10, 657	−18, 599	−28, 275	−39, 269	−54, 468
Energy tax provisions		−1, 320	−1, 742	−2, 242	−2, 837	−3, 619
Savings incentive provisions		−247	−1, 797	−4, 208	−5, 740	−8, 375
Estate and gift tax provisions		−204	−2, 114	−3, 218	−4, 248	−5, 568
Tax straddles provisions [1]	37	623	327	273	249	229
Administrative provisions		1, 182	2, 048	1, 856	718	592
Miscellaneous provisions	−1	−104	243	535	53	−275
Total revenue effect	−1, 565	−37, 656	−92, 732	−149, 963	−199, 311	−267, 627

[1] Revenue effects do not reflect transactions entered into after Dec. 31, 1981. Total revenue effects of subsequent years might be affected by judicial decisions interpreting present law.

TABLE 4.—ESTIMATED REVENUE EFFECTS OF PUBLIC LAW 97-34, FISCAL YEARS 1981-86

[In millions of dollars]

Provision	1981	1982	1983	1984	1985	1986
Individual income tax provisions:						
Rate cuts [1]		−25,793	−65,703	−104,512	−122,652	−143,832
20 percent rate on capital gains for portion of 1981	−39	−355				
Deduction for 2-earner married couples		−419	−4,418	−9,090	−10,973	−12,624
Indexing					−12,941	−35,848
Child and dependent care credit		−19	−191	−237	−296	−356
Charitable contributions deduction for non-itemizers		−26	−189	−219	−681	−2,696
Rollover period for sale of residence	(3)	(4)	(4)	(4)	(4)	(4)
Increased exclusion on sale of residence	(3)	−18	−53	−63	−76	−91
Changes in taxation of foreign earned income		−299	−544	−563	−618	−696
Total, individual tax reductions	−39	−26,929	−71,098	−114,684	−148,237	−196,143
Business tax cut provisions:						
Capital cost recovery provisions	−1,503	−9,569	−16,796	−26,250	−37,285	−52,797
Corporate rate reductions		−116	−365	−521	−565	−610
Credit for rehabilitation expenditures	−9	−129	−208	−239	−302	−409
Credit for used property	−24	−61	−74	−85	−137	−198
Credit for increasing research activities		−448	−708	−858	−847	−485
Permit complete allocation to domestic deductions of all domestically performed R. & D		−57	−120	−62	(2)	
Charitable contributions of scientific property used for research	(2)	(2)	(2)	(2)	(2)	(2)
Increase in accumulated earnings credit		(2)	−33	−36	−40	−44
Subchapter S shareholders		(2)	(2)	(2)	(3)	(2)
LIFO inventories and small business accounting		−68	−184	−192	−145	−64
Reorganizations of certain savings and loan associations [5]	(2)	(2)	(2)	(2)	(2)	(2)
Commercial bank bad debt deduction		−15	−15			
Conversion of mutual savings banks	−5	−10	−12	−18	−22	−25
Extension and modification of targeted jobs tax credit		−63	−13	57	117	161
Incentive stock options	(2)	(2)	(2)	(2)	11	21
Motor carrier operating rights [6]	−21	−121	−71	−71	−54	−18
Total, business tax cut provisions	−1,562	−10,657	−18,599	−28,275	−39,269	−54,468
Energy provisions:						
$2,500 royalty credit for 1981; exemption for 1982 and thereafter		−1,220	−947	−986	−1,193	−1,279
Reduction in tax of newly discovered oil		−75	−255	−520	−867	−1,528
Exempt independent producer stripper well oil			−525	−721	−762	−797
Exemption from windfall profit tax for child care agencies		−25	−15	−15	−15	−15
Total, energy provisions		−1,320	−1,742	−2,242	−2,837	−3,619
Savings incentives provisions: [7]						
Individual retirement savings		−229	−1,339	−1,849	−2,325	−2,582
Self-employed plans		−56	−157	−173	−183	−201
Exclusion of interest on certain savings certificates		−398	−1,791	−1,142		
15-percent net interest exclusion					−1,124	−3,126
Repeal of $200 exclusion of interest and return to $100 dividend exclusion		566	1,916			
Reinvestment of dividends in public utility stock		−130	−365	−416	−449	−278
Employee stock ownership plans		(2)	−61	−628	−1,659	−2,188
Total, savings incentives provisions		−247	−1,797	−5,740	−4,820	−8,375
Estate and gift tax provisions:						
Increase in unified credit		(2)	−1,077	−1,981	−2,811	−3,834
Reduction in maximum rates of tax		(2)	−172	−371	−556	−890
Unlimited marital deduction		(2)	−303	−304	−311	−300
Current use of certain farm, etc, real property		−18	−280	−295	−326	−319
Extensions of time for payment of estate tax		(2)	−20	−16	−15	−12
Tax treatment of contributions of works of art, etc		(2)	(2)	(2)	(2)	(2)
Transfers of gifts within 3 yrs of death		(2)	−58	−50	−42	−38
Repeal of deduction for bequests to minor children		(8)	(8)	(8)	(8)	(8)
Increase in annual gift tax exclusion		−123	−204	−201	−187	−175
Annual filing and payment of gifts taxes		−63	(2)	(2)	(2)	(2)
Total, estate and gift tax provisions		−204	−2,414	−3,218	−4,248	−5,568
Tax straddles [9]	37	623	327	273	249	229

See footnotes at end of table.

TABLE 4.—ESTIMATED REVENUE EFFECTS OF PUBLIC LAW 97-34, FISCAL YEARS 1981-86—Continued

[In millions of dollars]

Provision	1981	1982	1983	1984	1985	1986
Administrative provisions:						
Changes in interest rate for overpayments and underpayments		100	(3)	100	−100	60
Changes in certain penalties	(8)	(8)	(8)	(8)	(8)	(8)
Cash management—changes in estimated tax payment requirements for large corporations		614	1,522	1,190	201	−142
Individual threshold for filing estimated payments increased to $500		−44	−29	−38	−40	−38
Financing of railroad retirement system		512	555	604	657	712
Total, administrative provisions		1,182	2,048	1,856	718	592
Miscellaneous provisions:						
State legislators travel expenses		−9	−5	−6	−6	−7
Group legal service plans		−16	−24	−26	−8	
Taxation of investment income of campaign funds	(2)	(2)	(2)	(3)	(3)	(3)
Tax-exempt bonds for volunteer fire departments		(10)	(10)	(10)	(10)	(10)
Charitable contributions by corporations		−44	−93	−102	−112	−123
Unemployment tax status of fishing boat services		(10)				
Excise tax on telephone service			435	766	309	
Amortization of construction period interest and taxes		−14	−33	−27	−23	−21
Amortization of low-income housing rehabilitation expenditures	−1	−8	−16	−25	−35	−39
Foreign investment in U.S. real property	(2)	(2)	(2)	(2)	(3)	(3)
Payout requirements of private foundations	(2)	(2)	(2)	(2)	(3)	(3)
Imputed interest rates on installment sales	(2)	(2)	(2)	(2)	(2)	(3)
Deduction for gifts and awards		−4	−5	−6	−7	−9
Industrial development bonds for mass transit		(10)	−7	−29	−54	−64
Deduction for certain adoption expenses		−9	−9	−10,	−11	−12
Total, miscellaneous provisions	−1	−104	243	535	53	−275
Grand total, all provisions	−1,565	−37,656	−92,732	−149,963	−199,311	−267,627

[1] These figures include the increase in outlays attributed to the earned income credit which results from reduction in tax rates. These outlays are: $4,000,000 in fiscal year 1982; $31,000,000 in 1983; $44,000,000 in 1984; $41,000,000 in 1985 and $38,000,000 in 1986.

[2] Loss of less than $5,000,000.

[3] Negligible.

[4] Loss of less than $10,000,000.

[5] This estimate is based on limited information about reorganizations that were planned even without this provision. If such reorganizations would have increased markedly without this provision, the revenue loss could be substantial.

[6] Includes a portion of the $36,000,000 in tax liabilities for calendar year 1980.

[7] These estimates were made using the rate schedule proposed by the bill. This approach results in a lower revenue loss than one that would have been obtained if the present law rates had been used.

[8] Gain of less than $5,000,000.

[9] Revenue effects do not reflect transactions entered into after Dec. 31, 1981. Total revenue effects of subsequent years might be affected by judicial decisions interpreting present law.

[10] Loss of less than $1,000,000.

Having presented the aggregate effects of the change in the tax law, this chapter will now summarize the changes in the tax law which pertain to individuals, and particularly those changes which affect older Americans and those planning for retirement.

1. INDIVIDUAL INCOME TAX REDUCTIONS

A. ACROSS-THE-BOARD CUTS IN TAX RATES

Under prior law, individual income tax rates began at 14 percent on taxable income above $3,400 (joint return) and $2,300 (single return). The tax rates increased up to 70 percent on joint returns with taxable incomes of $215,400 or $108,300 on a single return. But the top tax rate on personal service income was 50 percent, payable on taxable personal service incomes above $60,000 (joint return) and $41,500 (single return).

Long-term capital gain, i.e., gain from the sale of assets held for more than 1 year, receives a deduction of 60 percent of the net gain. The remaining 40 percent of the net gain was taxed at ordinary rates up to 70 percent. Therefore, the maximum effective tax rate on long-term capital gains was, under prior law, 28 percent (i.e., 70 percent tax rate times 40 percent of net gain).

The new law provides for a 5-percent, across-the-board cut in individual income tax rates beginning on October 1, 1981, followed by an additional 10-percent tax cut on July 1, 1982, and a final 10-percent cut on July 1, 1983. The top marginal tax rate is reduced from 70 to 50 percent, effective January 1, 1982, and the maximum tax rate on long-term capital gains is reduced from 28 to 20 percent for sales or exchanges after June 9, 1981.

B. INDEXING

The individual income tax is based on various fixed amounts, such as the amounts that define the thresholds for the tax brackets, the zero bracket amount, and the personal exemption. These dollar amounts are not adjusted for inflation.

The new law provides that starting in 1985, all individual income tax brackets, the zero bracket amount (the old standard deduction), and the personal exemption will be adjusted annually for increases in the Consumer Price Index. As a result, individual taxpayers will no longer be pushed into higher tax brackets because of inflation.

C. NEW DEDUCTION FOR TWO-EARNER COUPLES

In 1981, a married couple with two wage earners of relatively equal income sometimes paid a higher income tax than two single people earning the same amount of income.

The new law allows married couples with two earners a deduction equal to 10 percent of the first $30,000 of the earnings of the spouse with the lower earnings. The maximum deduction is, therefore, $3,000. But it will be phased in over 2 years: A 5-percent deduction (maximum of $1,500) in 1982 and a 10-percent deduction in 1983.

D. CHARITABLE CONTRIBUTIONS

In 1981, individuals can only deduct contributions to a charitable organization if they itemize deductions for Federal income tax purposes.

The new law provides that all taxpayers can, beginning in 1982, deduct charitable contributions regardless of whether they itemize deductions. For those who do not itemize deductions for taxable years 1982 and 1983, the allowable deduction will be 25 percent of the first $100 of contributions, rising to 25 percent of $300 in 1984. The allowable deduction will be 50 percent of contributions in 1985 and 100 percent of contributions in 1986. The provision expires in 1987. The limits on contributions are the same for joint and single returns.

The provisions regarding charitable contributions by those who do itemize deductions are not affected by the new law.

E. AGE 55 EXCLUSION OF CAPITAL GAIN FROM SALE OF PRINCIPAL RESIDENCE

Prior law allowed individuals who have attained age 55 to exclude from taxable income—for one time only—up to $100,000 of gains from the sale of their principal residence. In general, the individual must be 55 on the date of the sale and must have owned and used the property as a principal residence for 3 years or more during the 5 years preceding the sale.

The new law increases the excludable gains from $100,000 to $125,000 for sales and exchanges of a principal residence after July 20, 1981.

For those who do not elect this option, and for all other taxpayers, the new law also extends the time period during which the taxpayer can "rollover" the gains from the sale of a home by purchasing a new home, thereby deferring the payment of capital gains tax.

Prior law provided that an individual could defer the gains from the sale of a home by purchasing another home as a principal residence within a period beginning 18 months before, and ending 18 months after, the sale.

The new law extends—from 18 months to 2 years—the replacement period during which taxpayers can reinvest the proceeds from the sale in the new principal residence and not pay capital gains tax on the sale. This applies to sales and exchanges of principal residence after July 20, 1981, or to residences sold before that date, if the replacement period expires after July 20, 1981.

2. Estate and Gift Tax Provisions

A. ESTATE AND GIFT TAXES

Under present law, estate and gift transfers are unified so that a single progressive tax rate schedule is applied to cumulative gifts and bequests. In 1981, estate and gift taxes ranged from 18 percent for the first $10,000 in taxable transfers, to 70 percent on taxable transfers of more than $5 million. Generally, the tax owed is computed by applying the progressive rate schedule to the taxable estate or gift amount, and then subtracting what is called a "unified credit." The amount of the estate or gift tax is, therefore, the total estate or gift tax minus the unified credit. In 1981, the unified credit is $47,000, which means there is no estate or gift tax on transfers up to $175,625.

The new law increases the unified credit—in steps—between 1982 and 1987. As a result, transfers which are exempt from taxes will rise from $175,625 in 1981, to $225,000 in 1982, $275,000 in 1983, $325,000 in 1984, $400,000 in 1985, $500,000 in 1986, and $600,000 in 1987 and thereafter.

The new law also reduces the maximum estate and gift tax rate 5 percentage points a year, beginning in 1982 and ending in 1985. As a result, the maximum tax will fall from 70 percent in 1981, to 65 percent in 1982, 60 percent in 1983, 55 percent in 1984, and 50 percent in 1985 and thereafter.

The new law also eliminates the dollar limits on marital deductions for gift and estate taxes. In 1981, there are limits on how much one spouse can transfer to another spouse through gifts or bequests, without paying taxes. The new law allows one spouse to transfer an unlimited amount of property, tax free, to the other spouse, beginning in 1982. Also, for property held in joint-tenancy with right of survivorship, only one-half of the property (instead of the full amount) will be included in the estate of the first spouse to die.

B. ANNUAL GIFT EXCLUSIONS

Under prior law, a donor is allowed to give up to $3,000 a year to any recipient ($6,000 if the gift is split between husband and wife) without paying taxes on the gift. The new law increases to $10,000 ($20,000 for a couple's split gift) the value of gifts to any one person—per year—which can be made tax free, beginning January 1, 1982.

The new law specifically exempts from the gift tax, beginning January 1, 1982, certain gifts made to pay for medical expenses or school tuition. In these cases, the donor must pay the gift directly to the person providing the medical care or to the school in question.

Also, the new law requires that gift tax returns only be filed on an annual basis, instead of the quarterly basis required in some cases under prior law.

3. Savings Incentives

The new law makes significant changes in tax law which are specifically intended to encourage savings by reducing Federal income taxes in the following ways:

A. PARTIAL INTEREST AND DIVIDEND EXCLUSION

In 1981, individuals can exclude from taxable income as much as $200 ($400 on a joint return) of dividends and interest earned from domestic sources.

The new law terminates the present $200 exclusion of dividends and interest ($400 for a joint return) after 1981. The allowable deduction will be $100 of dividends on a separate return, and $200 on a joint return, beginning in 1982.

Also, starting in 1985, taxpayers will be able—for the first time—to exclude 15 percent of interest income but only to the extent that interest income exceeds nonbusiness and nonmortgage interest deductions. The maximum interest exclusion will be $450 ($900 for joint returns).

B. EXCLUSION OF REINVESTED STOCK DIVIDENDS FROM PUBLIC UTILITIES

In 1981, stock dividends paid to all shareholders on a pro rata basis are taxable when the dividend is disposed of or sold. Stock distributions that are not made on a pro rata basis are taxable at fair market value when the shares are initially received. If the shareholder has the option to receive cash or stock, distributions are taxable at fair market value when received.

The new law provides that shareholders in a domestic public utility corporation who choose to receive their dividends in the form of common stock, can exclude from taxable income up to $750 ($1,500 for a joint return). The income will be treated as a capital gain when the taxpayer sells the stock. The exclusion applies for the years 1982 through 1985.

Note that this provision applies only to stock dividends, and not to cash dividends. The stock must be common stock newly issued for this purpose and valued between 95 and 105 percent of the stock's value immediately before the distribution date.

C. TAX-EXEMPT SAVINGS CERTIFICATE

Prior law had no provision that specifically excludes interest earned on savings certificates. The new law exempts from taxation up to $1,000 ($2,000 for a joint return) of interest on qualified savings certificates. These certificates must be issued between September 30, 1981, and January 1, 1983, and must have a yield equal to 70 percent of the yield on 1-year Treasury bills. The certificates must be issued by financial institutions which invest in residential financing or agricultural loans.

D. INDIVIDUAL RETIREMENT ACCOUNTS (IRA'S)

In 1981, deductions to an individual retirement account (IRA) were limited to the lesser of 15 percent of compensation or $1,500. Under the new law, for taxable years after December 31, 1981, the limit on contributions will be the lesser of 100 percent of compensation or $2,000.

Further, the new law allows workers covered by a company pension plan to participate in IRA accounts. Such workers were excluded from IRA's in 1981. For taxable years after December 31, 1981, the $2,000 limit on contributions will apply to contributions the employee may make to an IRA or as a voluntary contribution to the company plan. Such voluntary contributions and earnings from the voluntary contributions will generally be subject to IRA-type rules.

E. IRA'S FOR NONEMPLOYED SPOUSES

After December 31, 1981, the limit on contributions to a spousal IRA will be increased from $1,750 to $2,250. Also, the new law deletes the previous requirement that contributions under a spousal IRA be equally divided between the spouses. The new law has no such rules on allocation, except that no more than $2,000 can be contributed to the account of either spouse.

Prior law forbade the nonearning spouse from making contributions to a spousal IRA after a divorce. Without wage or salary income, an individual cannot continue making contributions to his or her one-half share of a spousal IRA.

The new law, effective January 1, 1982, allows a divorced spouse to continue making contributions to a spousal IRA under certain conditions. The individual's former spouse must have established the spousal IRA at least 5 years before the divorce, and the former spouse must have contributed to the spousal IRA for at least 3 to 5 years preceding the divorce. If those requirements are met, then the divorced spouse may continue to make contributions to the spousal IRA up to a maximum of the lesser of $1,125 or the divorced spouse's total compensation and alimony includable in gross income.

F. KEOGH PLANS FOR SELF-EMPLOYED

In 1981, the maximum contribution to a Keogh plan is limited to 15 percent of compensation or $7,500, whichever is lower.

The new law retains the limit of 15 percent of compensation. But, effective with taxable years after December 31, 1981, it increases the maximum deduction for employer contributions to a defined contribution Keogh plan, to a defined contribution plan maintained by a subchapter S corporation, or to a simplified employee pension (SEP). The maximum deduction is increased from $7,500 to $15,000. To provide a similar increase in the level of benefits permitted under a defined benefit Keogh or subchapter S corporation plan, the compensation taken into account in determining permitted annual benefit accruals is increased from $50,000 to $100,000.

G. RETIREMENT INVESTMENTS IN COLLECTIBLES

Prior law generally makes no stipulation as to what types of investments qualify for tax deferral under an IRA, Keogh, or other individually directed plan.

The new law specifies that after December 31, 1981, the acquisition of collectibles through an IRA or through any self-directed account in a qualified plan, will be treated, for tax purposes, as a distribution from such an account. In other words, in 1982, the acquisition of collectibles will no longer be tax deferrable; the value of the acquisition will be taxed as ordinary income; and the acquisition may incur tax penalties relating to premature distribution.

Collectibles are defined as any work of art, any rug or antique, any metal or gem, any stamp or coin, any alcoholic beverage, or any other tangible personal property specified in regulations.

H. EMPLOYEE STOCK OWNERSHIP PLANS (ESOP'S)

In 1981 and 1982, prior law provides an investment tax credit for employers making contributions to employee stock ownership plans (ESOP). The new law terminates, after 1982, the investment-based tax credit for ESOP contributions and replaces it with a payroll-based tax credit for wages paid in calendar years 1983–87. Although this provision will not have any direct effect on taxes paid by individuals, the change from an investment tax credit to a payroll-based credit is intended to encourage the spread of ESOP plans among labor-intensive firms. Under present law, such firms derive little tax benefit from the investment-based credit.

4. ESTIMATED TAX PAYMENTS

Retired Americans often don't realize that the receipt of unearned income from taxable pensions, annuities, dividends, and interest, may require that they file a declaration of estimated tax. The declaration of estimated tax must be filed by April 15 of the year in which the tax obligation is incurred. And, thereafter, quarterly tax payments are required by April 15, June 15, September 15, and January 15. If you are required to file the declaration and pay estimated taxes, but fail to do so, you are subject to penalty and interest charges.

The new tax law relaxes the requirements regarding declaration and payment of estimated taxes by individuals. Prior law provided that, in general, individuals were required to file declarations of estimated taxes and make quarterly payments if the tax liability was $100 or more. For taxable years beginning January 1, 1982, the new law increases the tax threshold from $100 to $500 over a 4-year period: $200 in 1982, $300 in 1983, $400 in 1984, and $500 in 1985 and thereafter. If the individual's tax liability is less than the threshold amount for those years, the individual will not be required to declare or pay estimated tax.

Part I

RETIREMENT INCOME

The problems in providing and maintaining adequate retirement income for older Americans have been exacerbated during the last several years by a combination of slow economic growth and rapidly rising prices. High rates of inflation have cut into the real incomes of the retired elderly, making adequate inflation protection more important and more difficult to provide. In addition, slow economic growth and a decline in real wages have raised the relative cost of our current retirement income programs. As a result, concern about the financing of retirement income has been growing in recent years. In 1981, this concern eclipsed other items on the retirement income reform agenda and emerged as one of the year's most volatile political issues.

A. INCOME OF OLDER PERSONS

For the elderly, as for others in the society, recent high rates of inflation have cut into the standard of living realized in the last decade.

In the 1960's and early 1970's, tremendous improvements in the incomes of the elderly resulted from the general increase in the standard of living and from specific improvements in social security benefits and employer-sponsored pension plans. Median incomes of families with a head 65 and older rose from $3,927 in 1967, to $7,505 in 1974. Adjusting for inflation, this was an increase from $5,801 (1974 dollars) in 1967, to $7,505 in 1974.[1] The incidence of poverty among the elderly declined correspondingly from 35.2 percent in 1959, to 14.6 percent by 1974.[2] In the late 1970's, however, economic stagnation brought this trend to a halt. The last several years have been a period of stable or declining real incomes for wage earners and retirees alike. Despite the fact that a significant portion of the income the elderly receive is automatically indexed for inflation, the elderly have experienced an overall decline in their purchasing power comparable to that of the nonelderly in recent years.

The clearest indicator of this decline has been an increase in the poverty rate among both the elderly and nonelderly. The incidence of poverty among persons 65 and over increased between 1978 and 1980 from 14 percent to 15.7 percent, while the incidence of poverty among persons under 65 increased correspondingly from 11 percent to 12.7 percent. In 1980, nearly 4 million older persons had incomes below the official poverty line.[3] The incidence of poverty was higher

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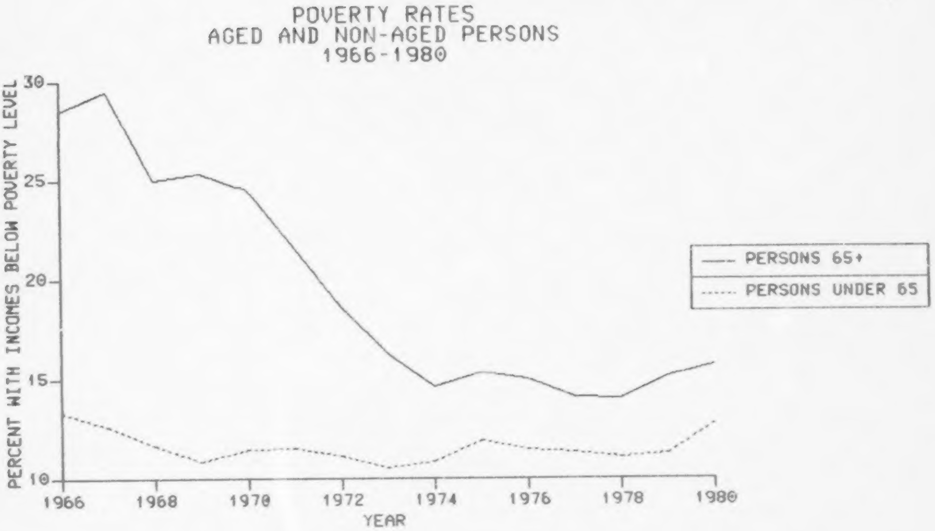
[1] U.S. Bureau of the Census, "Current Population Reports," series P-60, various years.

[2] U.S. Bureau of the Census, "Current Population Reports," series P-60, No. 130, table 1.

[3] In 1980, the Census ("Orshansky") Poverty Index was $3,950 for a single person age 65 and over, and $4,950 for a couple in which the householder was age 65 and over.

CHART 1



Source: U.S. Bureau of the Census, Current Population Reports, Series P-60, No. 130, Table 1; and unpublished tables.

for the "very old" (age 85 and over) (24.4 percent) than for those between the ages of 65 and 74 (15 percent), and higher for aged females (19 percent) than for aged males (10.9 percent). The black aged had a poverty rate (38.1 percent) nearly three times higher than that of the white aged (13.6 percent). Aged persons living within a family setting had a lower incidence of poverty than aged unrelated individuals. About 8.5 percent of the aged who lived in families were poor, compared to 30.6 percent of those who lived outside a family setting.[4]

Changes in the median income of the elderly provided a somewhat different perspective on income trends during this period. In 1980, the median income for families with a member 65 or older was $13,923, while the median income for an unrelated individual 65 years and older was $5,056.[5] This represented an increase of 3.4 percent in real income of families since 1978, and a decrease of 4 percent in the real incomes of unrelated individuals since 1978. Families with no elderly members and unrelated individuals under 65 had median incomes nearly double those of the elderly. In 1980, the median income for families with no elderly members 65 and over was $22,272, while the median income for unrelated individuals under 65 was $10,064. However, in real terms, incomes for families with nonelderly members declined by 6 percent between 1978 and 1980, while incomes f nonelderly unrelated individuals declined by 2 percent.

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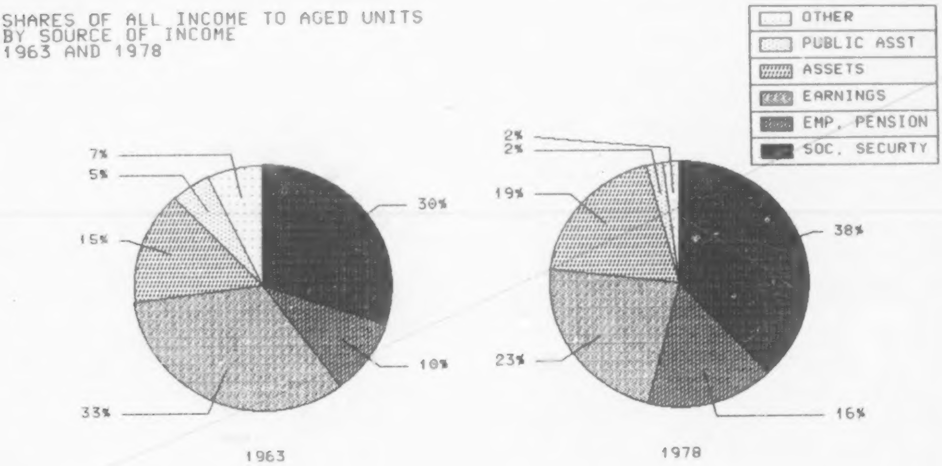
[4] Unless otherwise noted, information about the income status of the aged in 1980, reported in this section, comes from Congressional Research Service tabulations of the March 1981 Current Population Survey (CPS).

[5] Some of the families with a member 65 and over include older persons living with their children.

Although a large portion of the elderly's income is adjusted in some fashion for inflation, much of it is not fully adjusted. By far the largest portion of income paid to aged units (e.g., families with a member 65 and over) comes from retirement benefits.

Social security is the major retirement program, providing in 1978, 38 percent of all income to aged units.[6] The importance of social security as a source of income to the elderly has increased substantially since 1963 when it paid 30 percent of all dollars received by aged units.[7] Today, over 90 percent of all aged units receive some income from social security.[8]

CHART 2



Sources: Leonore A. Epstein and Janet H. Murray. Aged Population of the United States: 1963 Social Security Survey of the Aged, Social Security Administration, Office of Research and Statistics, staff paper no. 19. 1967.

Susan Grad. Income of the Population 55 and Over, 1978, Social Security Administration, Office of Research and Statistics, 1981.

Automatic price indexing provisions in social security enacted in 1972 and put into effect in July 1975, have been effective in maintaining the purchasing power of social security benefits after retirement despite high rates of inflation in recent years. The significance of this inflation protection has been greatest for those most dependent on social security. In 1980, 14.6 percent of aged unrelated individuals and 4.7 percent of the families with an aged member reported that social security was their only source of income. Social security provided 90 percent or more of the income to more than one-fourth of all aged units.

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[6] Unless otherwise noted, information on the income shares of aged units in 1978 comes from Susan Grad, "Income of the Population 55 and Over, 1978," Social Security Administration staff paper. An aged unit is, in this case, either a married couple living together, one or both of whom is 65 or older, or an individual 65 or over who does not live with a spouse. Income is measured for the unit separately from the income of the family or household in which the unit lives.

[7] Lenore A. Epstein and Janet H. Murray, "Aged Population of the United States: 1963 Social Security Survey of the Aged," Social Security Administration, Office of Research and Statistics, staff paper No. 19.

[8] Includes railroad retirement benefits.

In recent years, employer-sponsored pensions have increased in importance as a source of income to the elderly; yet, they remain the fourth largest source of income, providing in 1978 only 16 percent of the dollars received by aged units. Private pensions, in particular, have expanded as a source of retirement income—increasing their share of elderly income from 5 to 8 percent after the enactment of the Employee Retirement Income Security Act of 1974 (ERISA)—an act designed to protect the retirement benefits of pension plan participants.

As of 1980, approximately one-quarter of aged unrelated individuals and two-fifths of the families with an aged member reported that they had income from private or government pensions during the year. The median income from these sources was $2,274 and $3,597, respectively.

Employer-sponsored pensions, with the exception of Federal civil service and military retirement pensions, provide incomplete protection for inflation. Recent data suggest that major pension plans are increasing the frequency of their adjustment of benefits for inflation after retirement, but that these adjustments still lag behind inflation and provide benefit adjustments lower than the increase in the Consumer Price Index. Nearly all companies that adjust benefits after retirement make these adjustments on an ad hoc basis. Only 3 percent of the pension plans surveyed provide for automatic annual adjustments, and in these cases the increases were limited to 3 to 4 percent.[9] A Labor Department study has indicated that even with ad hoc adjustments of pension benefits the real value of private pension benefits declined by 4 to 8 percent a year in the early 1970's.

Savings and other sources of asset income are providing an increasing proportion of income to the elderly. The share of income to aged units coming from assets increased from 15 percent in 1963, to 19 percent in 1978. As of 1980, 65 percent of aged unrelated individuals had income from these sources, with half receiving less than $820 over the course of the year. Approximately 75 percent of the families with an aged member had income from these sources, with half receiving less than $1,469. The extent of inflation protection provided by asset income varies considerably depending on the nature of the asset. Tangible assets, such as a home, have generally increased in value to keep pace with inflation. On the other hand, financial assets such as savings or checking accounts or bonds, have largely fallen behind inflation.

Public assistance, primarily supplemental security income (SSI), provides a very small share of income to the elderly—a share which has declined in recent years. Whereas, in 1963, aged units derived 5 percent of their income from public assistance, by 1978, only 2 percent of the income of aged units came from this source.

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[9] Towers, Perrin, Forster, and Crosby, "Pension Increases for Retired Employees," November 1981. A report of a 1981 survey of 95 companies surveyed in 1979. See also, U.S. Department of Labor. Bureau of Labor Statstics, "Employee Benefits in Industry," 1980, Bulletin No. 2107, September 1981, table 29.

As of 1980, about one in eight aged unrelated individuals and 1 in 12 families with an aged member received a benefit from the supplemental security income (SSI) program. The median payment reported by those receiving income from this source was $1,208 for aged unrelated individuals, and $1,640 for families with an aged member. While Federal SSI and food stamp benefits are automatically adjusted for the full CPI, State supplementation and other State assistance payments are not. In addition, allowable income and asset levels for determining eligibility are not changed automatically. In general, public assistance provides only partial inflation protection.

While it is commonplace to characterize the elderly as retired, in fact a substantial portion of the income received by aged units comes from earnings from either full- or part-time employment. This proportion, however, decreased significantly during the 1960's and 1970's. While earnings provided 33 percent of the income of aged units in 1963, by 1978, it accounted for only 23 percent of their income. There are some indications that this decline has leveled off—perhaps as a result of an increasing effort on the part of the elderly to find ways to supplement their stagnating real incomes.

As of 1980, 14 percent of aged unrelated individuals reported that they had income from earnings, with half having earned less than $3,093.[10] In comparison, 85 percent of nonaged unrelated individuals reported that they had income from earnings, with half of them having earned more than $10,978 in 1980. Similarly, 51 percent of the families having an aged member received income from earnings in 1980, with half of them earning more than $10,518.[11] In comparison, 94 percent of the families with no aged members had income from earnings, and their median family income was $21,631.

During periods of normal economic growth, wage increases surpass increases in prices. This has not been true, however, in the last 3 years. Because adjustments in wages and salaries have lagged behind inflation, real earnings have declined and earnings have provided a relatively weak source of inflation protection for both older and younger workers.

B. REORDERING RETIREMENT INCOME PRIORITIES

Ever since the enactment of social security in 1935, public policy has viewed the retirement income sector as a three-tiered system composed of social security, private pensions, and personal savings and investments. In fact, however, because of its historical expansion, social security has paid an ever larger share of the income of the elderly. Private pensions and personal savings, combined, provide only about one-third of the total income of the elderly, and the distribution of pension and asset income is very uneven, with substantial numbers of people receiving little or no income from these sources.

A growing national mood of fiscal conservatism, and increasing uncertainty about the financial soundness of retirement income systems has been leading in recent years to a reordering of retirement income priorities away from an emphasis on public means toward greater reliance on individual and private means.

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[10] Earnings include money wages and salaries, and net income from farm and nonfarm self-employment.

[11] Some of these families may include older aged persons living with their children.

Interest has developed in containing the growth of social security and in developing policies to encourage greater private provision of retirement income. This interest is motivated by a desire to control projected growth in the entitlement portion of the budget, reduce budget deficits, stabilize the payroll tax rate, and revitalize the economy through reductions in business costs and increases in capital formation. Added pension funds and expanded savings are viewed as an important source of new capital investment, while increased payroll tax funding for social security is seen as a drain on productivity.

Concern over the financing of social security has come to overshadow other retirement income issues. Despite the reports of several commissions concerned with women's equity and the adequacy of retirement income benefits, legislative attention has been focused almost entirely on the social security financing issue. This phenomena first appeared in 1979 in the context of Carter administration efforts to control Federal spending. Several proposals for reducing social security outlays later enacted in the Omnibus Budget Reconciliation Act of 1981 were first introduced in fiscal 1980 budget proposals. These included elimination of the lump sum death benefit, elimination of parents' benefits, and the phaseout of post-secondary student benefits.

In 1980, the Congress enacted major cuts in benefits in the social security disability program as part of the Social Security Disability Amendments of 1980 (Public Law 96–611). Changes in the disability insurance program resulting from this law included a reduction in disability family maximum benefits and a reduction in the number of dropout years allowed in the computation of disability benefits for younger workers.

By the beginning of 1981, the stage had been set for more comprehensive action by the 97th Congress. Congress had enacted a law in 1980 temporarily reallocating payroll taxes among two of the trust funds to provide time for the new Congress to construct a more thorough solution. The House Ways and Means Committee began markup on a social security bill in the early spring of 1981. At the same time, the administration's budget package, including the elimination of some benefits and reductions in others, began moving through committee. It was not, however, until May 12, when the administration announced its comprehensive social security reform package, that the attention of the Congress became focused on the issue of social security financing.

The administration's dramatic presentation of the financing problems in social security during the early summer months alarmed both beneficiaries and contributors to the system. Public confidence in social security, which was already sagging as a result of several years of media discussion of the financing problem, fell to new lows.

This loss in public confidence is evident in the comparison of two Louis Harris & Associates polls. In "A 1979 Study of American Attitudes Toward Pensions and Retirement," 42 percent of all current employees responded that they had "hardly any confidence at all" that social security would pay them their benefits when they retired. In a 1981 study "Aging in the Eighties: America in Transition," released in November, more than half (54 percent) of all Americans had "hardly any confidence" that their benefits would be paid.

This lack of confidence was most extreme among young respondents. Two-thirds (68 percent) of those 18 to 54 had hardly any confidence compared to a little over one-third (38 percent) of those 55 to 64.[12]

In the wake of the administration's proposals, social security became a major partisan issue with active coverage in the media throughout the year. Aging interest groups and labor unions reactivated the "Save Our Security" coalition, formed originally in opposition to the fiscal year 1980 budget proposals, in an effort to preserve the current structure of benefits in social security. Interest groups representing private business testified before congressional committees in favor of containing the growth in social security. Several independent research and education organizations released detailed proposals for reforming social security, in particular, and retirement income policy in general. In addition, old reform proposals, once considered extreme, found new proponents in the Congress.

With the passage of the social security changes included in the Omnibus Budget Reconciliation Act of 1981, including elimination of the minimum benefit, public and partisan opposition to the proposals for social security reform coalesced. Serious consideration of financing reforms was deferred to a bipartisan 15-member National Commission on Social Security Reform which will meet in 1982.

Other retirement income issues were less volatile than social security. In these areas legislative activity was focused on strengthening private sources of retirement income.

In the end, the new attitudes in the Congress about retirement income priorities were reflected in the year's legislative action. The effort to halt the growth in public intergenerational transfers and shift emphasis to private retirement income sources was advanced by:

—Enacting reductions in social security outlays, both in the near future and in the long term, through the elimination of some "peripheral" benefits and through other modifications in procedures.

—Proposing to spur private pension growth through simplification of ERISA to reduce the employer's pension costs and improve the flexibility of pension fund investments.

—Enacting incentives for the accumulation of additional retirement savings by expanding eligibility for individual retirement accounts (IRA's), and increasing contribution limits for Keogh plans and simplified employee pension (SEP) plans.

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[12] Louis Harris & Associates, Inc., "A 1979 Study of American Attitudes Toward Pensions and Retirement." A nationwide survey of employees, retirees, and business leaders. Commissioned by Johnson and Higgins. Louis Harris & Associates, Inc., "Aging in the Eighties: America in Transition." A survey conducted for the National Council on the Aging, November 1981.

Chapter 3

SOCIAL SECURITY

OVERVIEW

Changes made in 1981 to strengthen social security's short-term financing include both reductions in benefits and limited authorization of borrowing among social security's three payroll-financed trust funds. The benefit reductions originally passed in July 1981 included, among other provisions, elimination of the minimum social security benefit and a phasing out of student benefits. Subsequent legislation, H.R. 4331, restored the minimum benefit for current recipients, but added revenue to offset part of the loss in expected savings through the extension of social security payroll taxes to cover previously tax-exempt sick pay. In addition, H.R. 4331 authorized the three separate trust funds to borrow among themselves for 1 year. These changes, however, were not intended by themselves to solve social security's short-term financing problems. They merely delay cash-flow problems for 1 year to enable the Congress to work out a more permanent solution.

The long-term problems of social security financing, projected for the 21st century, were not addressed in the 1981 legislation. Bills introduced in the House and in the Senate which would have attempted to eliminate the long-term social security deficit by gradually raising the age for payment of full social security benefits from 65 to 68 have not advanced in Congress, despite the fact that virtually all the expert groups that studied the problem have recommended this course of action.

A. BACKGROUND

1. Origins of the Social Security Program

The social security program, born in the Great Depression, is only now coming of age. The decade of the 1980's will see its maturation, with the first generation of lifelong contributors retiring and beginning to draw benefits. Also during this decade, it is expected that payroll tax rates, eligibility requirements, and the relative value of monthly benefits will finally stabilize at the levels planned. While social security has grown and changed tremendously over the course of its development, the basic principles which guided the architects of the old-age pension program in 1935 have remained unchanged.

Many of those who designed social security intended that it become a universal social insurance program with compulsory participation. As such, it was intended to eventually provide all workers and their families with a floor of income protection in the event that the worker was no longer able to earn income due to retirement and later premature death or disability. This "floor of protection" was designed to be only a portion of the income needed by the worker and his family to maintain their previous standard of living. The remainder of this income was supposed to come through supplementary insurance, savings and investments, and other arrangements made voluntarily by the worker. In recognition that workers with low earnings would have greater difficulty providing supplementary protection than high earners, the benefits in the program were weighted to give a higher replacement of earnings to low earners. In keeping with the concept of insurance, benefits were paid based on a determination that the insured-against condition or event had occurred, without regard to whether the individual had other means for support. Social security was not initially intended to be either an investment program or a welfare program. These functions are performed through other public or private vehicles. The primary function of social security has always been to insure some replacement of earnings when workers are no longer working.

Social security provides workers with benefits they have earned. Both the funding for the program and the benefits paid have, therefore, always been "earnings-related." Funding comes from earmarked payroll tax "contributions" which are a fixed proportion (6.7 percent in 1982) of each worker's earnings, matched by an equivalent employer's contribution. Social security benefits are based on the average lifetime earnings of the worker.

While architects of the original program foresaw a more complete form of social insurance, the original act established only a Federal old-age insurance program (OAI) with mandatory coverage for workers in commerce and industry. Initially, only 43 percent of the labor force was covered. [1] Employer and employee contributions were each set at 1 percent of the first $3,000 of earnings, with a scheduled increase to 3 percent by 1950.

Over the years, this program was modified to expand coverage, improve the quality of income protection for workers, and increase funding for the program. During the 1950's and 1960's, jobs in agriculture, State and local government (on an elective basis), uniformed services, and the self-employed (including ministers and members of religious orders not under a vow of poverty) were brought under the system. By 1970, virtually all gainfully employed workers except Federal, and some State and local government workers, were covered by social security. Today, about 115 million workers or 95 percent of all jobs are covered by social security.

The quality of income protection has been improved through the addition of new benefits and through increases in the benefit amounts. The original program enacted in 1935 paid benefits to workers only. In 1939, the Congress added monthly benefits for the dependents and survivors of workers and renamed the program old-age and survivors insurance (OASI). These family benefits introduced into social security the principle of greater help for greater presumed need—providing larger benefits to those with larger family responsibilities. In 1956, the disability insurance (DI) program was added, providing cash benefits for severely disabled workers, and for adult children of retired workers if disabled before age 18. Dependents benefits were added to this program in 1958. In 1965, Congress established medicare with two parts: A basic compulsory program for hospital insurance (HI) funded by a separate payroll tax, and a voluntary supplementary medical insurance plan (SMI) to provide coverage for physician expenses, funded jointly through monthly premiums paid by the beneficiary and Federal general revenue appropriations. Medicare was expanded in 1972 by extending coverage to those under 65 entitled to disability cash benefits for 24 consecutive months, and to certain victims of chronic renal disease.

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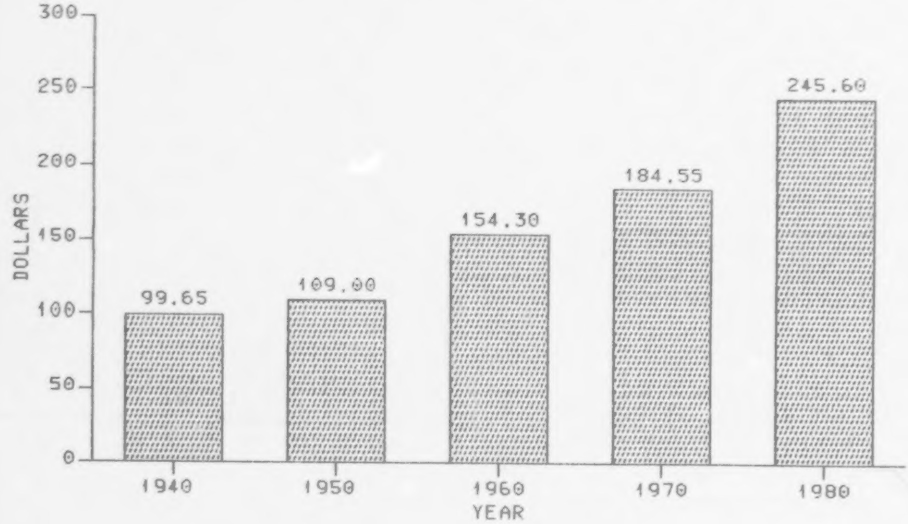
[1] Social Security Administration, Social Security Bulletin, Annual Statistical Supplement, 1977–79, table 7, p. 57.

Over the years, Congress also granted periodic increases in benefits to keep up with inflation. In 1972, Congress enacted an automatic annual adjustment for increases in the Consumer Price Index (CPI) of 3 percent or more, effective in 1975, to eliminate the need for ad hoc increases. 1972 also saw a change in the method of computing the workers average earnings and the basic benefit amount so that initial benefits would rise with the standard of living over time. A technical error in the indexing method led Congress to enact another change in the computation formula in 1977 which had the effect of fixing the relationship between initial benefits and earnings over time.

CHART 3

AVERAGE MONTHLY SOCIAL SECURITY RETIREMENT BENEFIT IN CONSTANT (1977) DOLLARS



Source: Social Security Administration.

Financing for the program has also changed over the years. The collection of payroll taxes began in 1937 with a tax rate of 1 percent on the first $3,000 of a worker's earnings and a matching tax on the employer. Scheduled increases in the payroll tax were delayed in the 1940's, and it was not until 1950 that the tax rate was increased to 1.5 percent. In 1951, the earnings base was increased for the first time to

$3,600, and a tax rate of 2.25 percent was assessed on the self-employed as they entered the system. Since then, the tax rate and earnings base have been increased to keep pace with improvements in the program, and the addition of medicare and disability insurance. In 1982, the tax rate is set at 6.7 percent on employees and employers, and 9.35 percent on the self-employed, with increases scheduled until 1990. In 1990 and thereafter, the rate will be fixed at 7.65 percent for employers and employees, and 10.75 percent for the self-employed.

The 1977 amendments also indexed the taxable earnings base to increases in covered wages. The first automatic increase went into effect in 1982, raising the amount of taxable earnings to $32,400. Rising tax rates and taxable earnings amounts have raised the maximum amount of annual taxes paid by employees from $30 in 1937, to $2,171 in 1982. In 1979, 24 percent of all covered family units paid more in payroll taxes than they did in Federal income tax. Two-thirds of these family units had annual incomes below $10,000.[2]

TABLE 1.—MAXIMUM CONTRIBUTION AND CUMULATIVE SOCIAL SECURITY EMPLOYMENT TAXES PAID BY EMPLOYEE

Year	Tax rate percent	Maximum wages taxable	Maximum annual tax contribution	Taxes paid cumulative total
1937	1.0	$3,000	$30.00	$30.00
1938	1.0	3,000	30.00	60.00
1939	1.0	3,000	30.00	90.00
1940	1.0	3,000	30.00	120.00
1941	1.0	3,000	30.00	150.00
1942	1.0	3,000	30.00	180.00
1943	1.0	3,000	30.00	210.00
1944	1.0	3,000	30.00	240.00
1945	1.0	3,000	30.00	270.00
1946	1.0	3,000	30.00	300.00
1947	1.0	3,000	30.00	330.00
1948	1.0	3,000	30.00	360.00
1949	1.0	3,000	30.00	390.00
1950	1.5	3,000	45.00	435.00
1951	1.5	3,600	54.00	489.00
1952	1.5	3,600	54.00	543.00
1953	1.5	3,600	54.00	597.00
1954	2.0	3,600	72.00	669.00
1955	2.0	4,200	84.00	753.00
1956	2.0	4,200	84.00	837.00
1957	2.25	4,200	94.50	931.50
1958	2.25	4,200	94.50	1,026.00
1959	2.5	4,800	120.00	1,146.00
1960	3.0	4,800	144.00	1,290.00
1961	3.0	4,800	144.00	1,434.00
1962	3.125	4,800	150.00	1,584.00
1963	3.625	4,800	174.00	1,758.00
1964	3.625	4,800	174.00	1,932.00
1965	3.625	4,800	174.00	2,106.00
1966	4.2	6,600	277.20	2,383.20
1967	4.4	6,600	290.40	2,673.60
1968	4.4	7,800	343.20	3,016.80
1969	4.8	7,800	374.40	3,391.20
1970	4.8	7,800	374.40	3,765.60
1971	5.2	7,800	405.60	4,171.20
1972	5.2	9,000	468.00	4,639.20
1973	5.85	10,800	631.80	5,271.00
1974	5.85	13,200	772.20	6,043.20
1975	5.85	14,100	824.85	6,868.05
1976	5.85	15,300	895.05	7.763.10
1977	5.85	16,500	965.25	8,728.35
1978	6.05	17,700	1,070.85	9,799.20
1979	6.13	22,900	1,403.77	11,202.97
1980	6.13	25,900	1,587.67	12,790.64
1981	6.55	29,700	1,975.05	14,765.69
1982	6.70	32,400	2,170.80	16,936.49

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[2] Benjamin Bridges, Jr., "Family Social Security Taxes Compared With Federal Income Taxes, 1979," Social Security Bulletin, vol. 44, No. 12, December 1981.

2. FINANCING PROBLEMS OF THE 1970's

As recently as 1970, the old-age, survivors, and disability insurance (OASDI) trust funds had on hand a reserve equal to 1 year's payout, an amount then considered adequate to meet any changes in expenditures or income due to unforeseen economic fluctuations. When Congress passed the 1972 amendments to the Social Security Act, economic forecasts projected a continuation of the relatively high growth rates and the low rates of inflation which had been experienced during the 1960's. Under these conditions, social security revenues would have adequately covered payouts, and trust fund reserves would have remained sufficient for contingencies.

The 1972 amendments increased social security benefits across-the-board by 20 percent, and initiated the price-indexing of benefits, and a complex indexing method for computing the initial benefit. A technical error in the method of computing the initial benefit led to an "over-indexing" of initial benefit amounts for new beneficiaries. In addition, when price-indexing of benefits was initiated in 1975, annual inflation rates of around 10 percent began to fuel a rapid increase in payouts from the system. A recession in 1974–75 raised unemployment rates to their highest level since World War II, and slowed the growth in real wages, causing income to the OASDI program to fall below expenditures. Finally, disability insurance trust funds were being steadily eroded because of a continuing rapid increase in beneficiaries.

Beginning in 1973, the board of trustees of the OASDI program began to predict a deterioration in the financial condition of the program in both the immediate future and over the long run. By 1977, the trustees predicted that the DI trust funds would be depleted by 1979, and the OASI trust funds by 1983. The long-run deficit (75-year average) was predicted to reach 8.2 percent of taxable payroll, a dramatic increase from the 0.32 percent average deficit predicted in the 1973 report. By 1977, reserves in the OASDI trust funds had already declined to less than 6 months' payout.

Congress moved in 1977 to correct the financial condition of the OASDI program. The 1977 amendments to the Social Security Act increased the overall payroll tax rate beginning in 1979, increased the taxable earnings base, reallocated a portion of the hospital insurance (HI) payroll tax rate to OASI and DI, and resolved the technical problems in the method of computing the initial benefit amount (decoupling). These changes were predicted to produce surpluses in the OASDI program beginning in 1980, and continuing over the next 30 years, with reserves building up to 7 months' payout by 1987. The long-run deficit in the OASDI program was to have been reduced from an average 8.2 percent to 1.46 percent of taxable payroll.

Again, however, the economy did not perform as well as forecasts had predicted. Annual increases in the Consumer Price Index exceeded 10 percent since 1979, a rate sufficient to double payouts from the program over 7 years. Real wage changes have been negative or near zero since 1977, and in 1980, unemployment rates exceeded 7 percent. As a result, annual income to the OASDI program continued to be insufficient to cover expenditures. Trust fund balances declined from $36 billion in 1977, to an estimated $27 billion in 1980. Lower trust fund balances, combined with rapidly increasing expenditures, brought reserves down to less than 3 months' payout by 1980.

The 96th Congress responded by temporarily reallocating a portion of the DI tax rate to OASI for 1980 and 1981. This measure (signed into law as Public Law 96-403) was intended to buy time for the 97th Congress to resolve the shortage of funds in the OASI and DI programs.

B. THE CURRENT FINANCING PROBLEM AND OPTIONS

1. The Financing Problem—1981

Public awareness of the impending insolvency of the social security system became acute in 1981. Concern about the problem had been mounting in the Congress throughout 1980, culminating in a series of hearings on social security financing in the Special Committee on Aging in December 1980. In the spring of this year, the administration changed the tone of the discussion when, in announcing its May 1981 social security reform proposals, it suggested that the OASI program could go bankrupt as early as the fall of 1982. These dire predictions led to counterclaims that the system as a whole was basically solvent. By the end of the year there was a general lack of agreement about the dimensions of the problem.

Behind the highly charged political debate on the seriousness of social security's financial problems, however, there lies a common foundation of factual information about the financial condition of the three social security trust funds which is not in dispute. The most recent version of these facts comes from the 1981 Report of the Trustees of the Social Security Trust Funds released in August, with adjustments for the effects of legislative changes in 1981, and a recent update on medicare spending.

Social security's financing problem is really three distinct financing problems. In the immediate future, there is a threat of the depletion of the old-age and survivors insurance trust fund due to the poor performance of the economy in recent years. With interfund borrowing between this trust fund and the disability and hospital insurance trust funds, this depletion could be delayed until later in this decade, when increases in the payroll tax rate, already scheduled to go into effect may help restore annual surpluses of income to OASI and DI. OASI and DI should then remain solvent throughout the century.

However, late in this decade, when OASI and DI are improving, the now healthy hospital insurance trust fund is expected to begin running large annual deficits. These deficits are expected to spiral, depleting the HI trust fund around 1990. There is no indication that the condition of HI will improve without a change in its structure.

In the long run, OASI and DI are expected to once again encounter financial difficulty when the bulge in the population created by the postwar "baby boom" reaches retirement age.

A. SHORT-TERM OASDI FINANCING PROBLEM

In the short term, the fund in the most trouble is the old-age and survivors insurance (OASI) fund. As of December 31, 1981, OASI had $19.1 billion on hand, roughly 13 percent of the 1982 estimated payout for the OASI program. Under all alternative assumptions about the economy, annual deficits in OASI, which were $3.7 billion, are expected to increase rapidly over the decade. Once interfund borrowing authority expires, there will not be enough reserves in the trust fund to assure that OASI can pay benefits on time. Sometime in 1983, the OASI trust fund, without assistance from the other funds, will be exhausted.[3]

The DI trust fund is in similar condition. As of December 31, 1981, the DI fund had $2.6 billion on hand, roughly 13 percent of the 1982 estimated payout for the DI program. However, while reallocation of the DI tax rate to OASI in 1980 and 1981 caused DI to experience large annual deficits in those years, by 1983, DI is projected to begin accumulating large annual surpluses. When OASI and DI are combined, surpluses in DI offset a part of the losses in OASI throughout the decade. By 1990, scheduled payroll tax increases will result in the restoration of annual surpluses to OASDI.

The principal cause of annual deficits and erosion in the OASDI trust funds has been the recent combination of slow economic growth and inflation. The income and expenditures of the social security system are both highly sensitive to changes in economic conditions.

Income to the system from payroll taxes is dependent upon the total value of wages paid, the limit on taxable earnings, and the number of covered workers. Increases in unemployment or a decline in the rate of growth in wages reduces total receipts. It is estimated currently that a 1-percent increase in unemployment decreases payroll tax contributions by $3.4 billion.

Expenditures from the program are a function of the number of beneficiaries and the value of the benefits paid. In times of high unemployment, older workers retire at higher rates and claim social security benefits. In addition, there is a direct relationship between inflation and benefit payments because of the automatic indexing of benefit amounts to the CPI. It is estimated currently that a 1-percent increase in inflation adds $1.4 billion in benefit costs. Inflation, by increasing total payments from the system, also has the effect of reducing the ratio of trust funds to annual expenditures if trust fund balances are not increasing at a rate equal to or greater than the rate of inflation.

In the last 3 years, social security expenditures have increased dramatically as a result of double-digit inflation. Benefits were increased across-the-board by 9.9 percent in 1979, by 14.3 percent in 1980, and by 11.2 percent in 1981. The cumulative effect of these increases has been to automatically raise expenditures by 40 percent since 1978. At the same time, real wages declined by 3 percent in 1979, by 4 percent in 1980, and 1.5 percent in 1981. And the unemployment rate, which was at a low of 5.8 percent in 1979, climbed in 1980 to 7.1 percent, and to an average 7.6 percent in 1981.[4]

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[3] Unless otherwise noted, all statistics on the current status of the OASDHI trust funds and forecasts for the period to 1990 are from estimates provided by the Office of the Actuary, Social Security Administration, on December 16, 1981, on the basis of the 1981 trustees report, under intermediate II-B assumptions. Forecasts are for calendar years.

1980 was a particularly bad year for the social security trust funds. The combination of a 14.3-percent benefit increase, and losses to revenues from a 4-percent decline in real wages, and a 7-percent unemployment rate, led to extremely high deficits. Together OASI, DI, and HI lost $3.3 billion in 1980, compared to a loss of only $300 million in 1979.

The administration, in responding to the recent deterioration of the economy, added a new, more pessimistic set of forecasts to the traditional series of three forecasts used by the social security trustees. The 1981 trustees report, released in August, contained in all five sets of economic assumptions for the economy in the next 5 years. However, only two of these sets of assumptions are generally being used in discussions of the condition of the trust funds: Intermediate II-B, the traditional intermediate set of assumptions, and "worst-case," the administration's new pessimistic forecast.

The key difference between the intermediate II–B and the "worst-case" assumptions about the economy lies in the speed of economic recovery. Intermediate assumptions forecast a return to substantial economic growth in 1982, with inflation dropping, at the same time, below the double-digit range. Real wages are expected to increase at about 0.6–0.7 percent a year through 1985. Unemployment is also expected to decline slowly from 7.8 to 6.8 percent.

On the other hand, "worst-case" assumptions show a delayed return of economic growth. Real GNP is forecast to remain below 1 percent until 1984, with inflation staying in the double-digit range until 1985. Real wages are projected to continue falling until 1984. Unemployment is projected to rise to 9.7 percent by 1983. When growth returns, however, in the latter half of this decade, it is assumed to be stronger under "worst-case" than under intermediate assumptions. It is interesting to note that the actual performance of the economy in 1981 has ranged between the intermediate II–B and the "worst-case" assumptions, although the economic trend for 1982 appears to be closer to the "worst-case."

Estimates of the operations of the trust funds which were provided in the 1981 trustees report have subsequently been updated for savings which are resulting from the passage of the Omnibus Budget Reconciliation Act. In addition, in October, the Social Security Office of the Actuary released a new set of more pessimistic estimates for the operations of the HI trust fund, based on a rapid escalation in hospital costs this year. In December, new estimates were released to reflect the effect of H.R. 4331.

Under intermediate II–B assumptions, OASDI annual deficits are expected to grow from $4.7 billion in 1981, to $9.6 billion in 1984. Scheduled tax increases in 1985 and 1986 will reduce annual deficits in those years to $1.5 billion and $3 billion respectively. But deficits will again grow annually to $9.2 billion by 1989. In 1990, a large scheduled tax increase will yield a surplus of $18.4 billion in that

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[4] Joint Economic Committee, "Economic Indicators," January 1982, 97th Congress, 2d session. The change in real wages for 1981 is based on a preliminary estimate of the percent changes between 1980 and 1981 in average weekly earnings of private nonagricultural workers (1977 dollars).

TABLE 2.—ESTIMATED OPERATIONS OF THE OASI, DI, AND HI TRUST FUNDS UNDER THE CONFERENCE AGREEMENT ON H.R. 4331 (BUT EXCLUDING INTERFUND BORROWING), ON THE BASIS OF THE 1981 TRUSTEES REPORT ALTERNATIVE II-B ASSUMPTIONS, CALENDAR YEARS 1980-90

[Amounts in billions]

Calendar year	Income					Outgo				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	$105.8	$13.9	$119.7	$26.1	$145.8	$107.7	$15.9	$123.5	$25.6	$149.1
1981	123.3	17.0	140.2	35.2	175.5	127.0	18.0	145.0	30.6	175.5
1982	133.3	24.0	157.3	40.2	197.5	143.0	19.3	162.3	35.1	197.4
1983	147.3	27.7	174.9	45.1	220.0	161.0	20.6	181.5	40.8	222.3
1984	161.5	31.2	192.6	49.9	242.5	180.0	22.2	202.2	47.3	249.5
1985	183.0	39.8	222.7	56.6	279.3	200.3	23.9	224.2	54.9	279.1
1986	198.8	44.7	243.5	65.7	309.2	220.8	25.7	246.5	63.2	309.6
1987	214.2	49.6	263.8	71.2	335.0	241.3	27.6	268.9	72.2	341.1
1988	229.2	54.5	283.7	76.2	359.9	261.4	29.8	291.2	81.8	373.0
1989	243.7	59.5	303.2	80.7	384.0	280.6	31.9	312.4	91.7	404.1
1990	278.7	73.1	351.8	85.1	436.9	299.3	34.0	333.4	103.0	436.4

	Net increase in funds					Funds at end of year					Assets at beginning of year as a percentage of outgo during year				
	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total	OASI	DI	OASDI	HI	Total
1980	−$1.8	−$2.0	−$3.8	$0.5	−$3.3	$22.8	$3.6	$26.5	$13.7	$40.2	23	35	25	52	29
1981	−3.7	−1.1	−4.7	4.7	−.1	19.1	2.6	21.7	18.4	40.1	18	20	18	45	23
1982	−9.7	4.7	−5.0	5.1	.1	9.4	7.2	16.7	23.6	40.2	13	13	13	52	20
1983	−13.7	7.1	−6.6	4.3	−2.3	−4.3	14.3	10.1	27.9	37.9	6	35	9	58	18
1984	−18.6	9.0	−9.6	2.6	−7.0	−22.9	23.3	.5	30.5	31.0	−2	65	5	59	15
1985	−17.4	15.9	−1.5	1.7	.2	−40.2	39.2	−1.0	32.2	31.2	−11	98	(1)	56	11
1986	−22.1	19.1	−3.0	2.5	−.5	−62.3	58.2	−4.0	34.8	30.7	−18	153	(2)	51	10
1987	−27.2	22.0	−5.2	−.9	−6.1	−89.4	80.2	−9.2	33.8	24.6	−26	211	−2	48	9
1988	−32.2	24.8	−7.5	−5.6	−13.1	−121.7	105.0	−16.7	28.2	11.5	−34	269	−3	41	7
1989	−36.9	27.6	−9.2	−10.9	−20.1	−158.5	132.6	−25.9	17.3	−8.6	−43	329	−5	31	3
1990	−20.6	39.0	18.4	−17.9	.5	−179.2	171.6	−7.5	−.6	−8.1	−53	390	−8	17	−2

[1] Between 0 and 0.5 percent.
[2] Between 0 and −0.5 percent.

Note: In the absence of interfund borrowing, the OASI trust fund would be unable to pay benefits late in 1982 under this set of assumptions.

Source: Social Security Administration, Office of the Actuary, Dec. 16, 1981.

year. Annual deficits through 1989 will require the OASDI system to spend reserves in the trust funds to meet obligations.

At the end of 1981, OASDI combined trust fund reserves were equal to 13 percent of estimated 1982 expenditures. This reserve ratio is expected to decline, as actual reserves decline and annual expenditures increase, to 9 percent of 1983 expenditures. A 9-percent reserve ratio is considered to be barely enough to meet cash-flow needs of the system in a perfectly stable economy. By 1986, combined OASDI reserves will have declined to less than 1 percent of estimated expenditures.

Beginning in 1990, OASDI reserve levels are expected to begin to build again, increasing to as much as 133 percent of a year's expenditures by 2010.

If OASDI and HI are temporarily combined, through time-limited interfund borrowing, annual surpluses and large accumulations of reserves in the HI trust fund will help to offset deficits in the early part of this decade. A combined OASDHI trust fund would still accumulate annual deficits in most years, but total reserves would not be depleted as rapidly. Under intermediate II–B assumptions, the current reserve of $40.1 billion would remain at about that level through 1982, declining to $30.7 billion in 1986, and to $11.5 billion in 1988. The combined reserves would remain sufficient to meet cash-flow needs until 1987. The combined reserve ratio which was 20 percent at the beginning of 1982, would decline to 9 percent at the beginning of 1987. Sometime in 1989, under intermediate assumptions, the reserves would be exhausted.

To offset the short-term deficit in the combined OASDHI trust funds and maintain a 20-percent ratio of reserves to annual outlays throughout the decade, under intermediate II–B assumptions, about $96 billion in additional resources would be required between 1982 and 1990. Half of this amount is needed to restore funds spent from the reserves over the decade. The other half is needed to increase reserves to keep up with a projected doubling in OASDHI expenditures during the decade. The total amount of additional resources needed is equal to 3 percent of the estimated $3 trillion in OASDHI expenditures from 1982 through 1990.

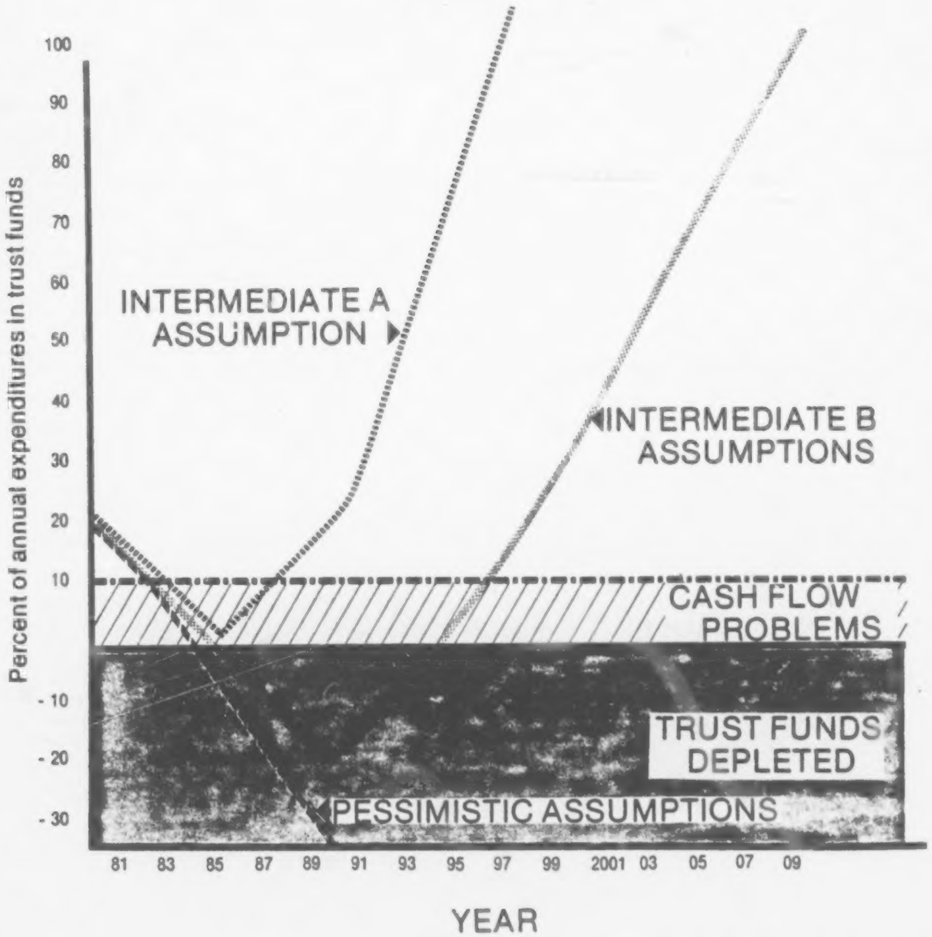
B. MEDICARE FINANCING PROBLEMS

During the early debate this year on the short-term problem in social security, the medicare problem was generally viewed as a problem for the next decade. The hospital insurance trust fund was seen as a source of funds to aid the ailing OASDI funds until the 1990 tax increase went into effect. In October 1981, however, the actuary released an update on the HI trust fund which revealed an acceleration in the forecast of trust fund depletion. Now, it is clear that if the HI trust fund is used to sustain OASDI in the near term, its reserves may be exhausted as early as 1989.

The future deficits in the HI program are a result of forecasts of continuing annual rates of growth in hospital costs exceeding the growth rate in the CPI. In recent years, hospital costs have increased at an annual rate between 10 and 19 percent. Intermediate II–B assumptions project rates of hospital cost increases declining from 15.6

CHART 4

OASDI STATUS OF TRUST FUNDS 1981 - 2000



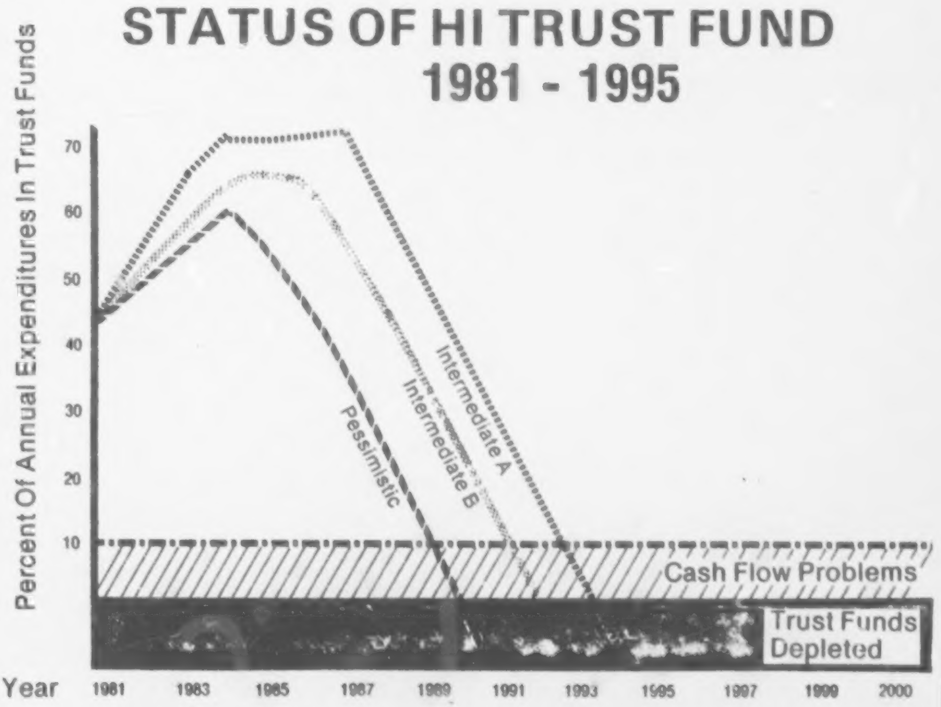
Under current law, in the immediate future, Old Age, Survivor's, and Disability Insurance (OASDI) trust funds are expected to be depleted under intermediate and pessimistic forecasts for the economy. However, sometime between 1985 and 1990, already scheduled increases in the payroll tax rates will begin to provide added revenues to the system. If the economy performs according to intermediate forecasts, the trust funds will build up to very high levels by the year 2000.

Source: Social Security Administration, 1981 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds, Table 31.

percent in 1981, to 10 percent in 1995, and 9.3 percent in 2005. These rates of increase are, after 1985, twice the rate of increase in the CPI.

From 1981 to 1987, medicare is expected to accrue annual surpluses. At the beginning of 1982, the HI fund had $18.4 billion in reserves, roughly 52 percent of the 1982 estimated outgo for the HI program. By the end of 1986, HI is expected (under intermediate assumptions) to have reserves on hand of $34.8 billion, 48 percent of the estimated payout for 1987.

CHART 5



Under current law, the Hospital Insurance (HI) trust fund is expected to be depleted in 1990 or shortly thereafter. This is largely due to strong projected increases in hospital costs throughout the next few decades under intermediate and pessimistic forecasts for the economy.

Source: Social Security Administration, 1981 Annual Report of the Board of Trustees of the Federal Hospital Insurance Trust Fund, Table 10.

Beginning in 1987, HI will run ever-increasing annual deficits, leading to an estimated $17.9 billion deficit (intermediate assumptions) in 1990. HI will retain a sufficient balance in the trust funds to meet payments on time throughout this decade, but will be rapidly depleted in the first years of the next decade.

Over the next 25 years, HI is expected to have an average annual deficit of more than 1.4 percent of taxable payroll. With no change in the law, this deficit would be 4.45 percent of taxable payroll over the next 75 years—far in excess of the average deficit of 1.65 percent of taxable payroll in OASDI, under intermediate assumptions.[5]

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[5] Long-run estimates for HI are from the Office of Financial and Actuarial Analysis, Health Care Financing Administration, Sept. 4, 1981.

C. THE LONG-TERM OASDI PROBLEM

Forecasts prepared by the Social Security Administration show that, under intermediate assumptions, annual expenditures for old-age, survivors, and disability insurance (OASDI) will exceed revenues beginning in the early decades of the next century and continuing through the first half of the century. Under these assumptions, expenditures will exceed revenues beginning around 2015, with the trust funds depleted by 2030. On the average, over the next 75 years, expenditures are expected to exceed revenues by an amount equal to an average 1.65 percent of the annual payroll subject to social security taxes.[6] This means that if payroll taxes were to be increased to offset this deficit, the average tax rate over the next 75 years would have to be raised from 12.25 percent, now scheduled for OASDI, to 13.90 percent.

The picture varies considerably over the three 25-year periods between 1981 and 2055. In the first 25-year period (1981–2005), revenues are expected to exceed expenditures by an average of 0.62 percent of taxable payroll. OASDI trust funds are expected to build to 134 percent of annual expenditures by 2005.

In the second 25-year period (2006–30), the financial condition of OASDI is expected to deteriorate considerably. By 2015 the trust funds will have grown to 181 percent of annual expenditures. Thereafter, annual deficits will erode the trust funds. Over the 25 years, expenditures are expected to exceed revenues by an average 1.33 percent of taxable payroll.

In the third 25-year period (2031–55), annual expenditures are projected to level off, but remain above annual revenues. The accumulating deficit is expected to exhaust the trust funds between 2025 and 2030. Expenditures in this period are expected to exceed revenues by an average 4.25 percent of taxable payroll.

The projected long-range deficit in the social security system is caused by the fact that there will be more elderly people, who will be living longer but continuing to retire early.

In absolute numbers, the population 65 and over was 17 million in 1960, and 26 million in 1980, and is estimated to be 36 million in

TABLE 3.—ESTIMATED AVERAGE OASDI TAX RATES, EXPENDITURES, AND ACTUARIAL BALANCE[1]

[Percent of taxable payroll]

	25-yr averages			75-yr average,
	1981–2005	2006–30	2031–55	1981–2055
Average scheduled tax rate (combined employer-employee rate)	11.94	12.40	12.40	12.25
Estimated average expenditures	11.32	13.73	16.65	13.90
Difference (actuarial balance)	.62	—1.33	—4.25	—1.65

[1] Based on the 1981 trustees report, intermediate II-B assumptions, including the effect of Public Law 97–35, but excluding the effect of Public Law 97–123.

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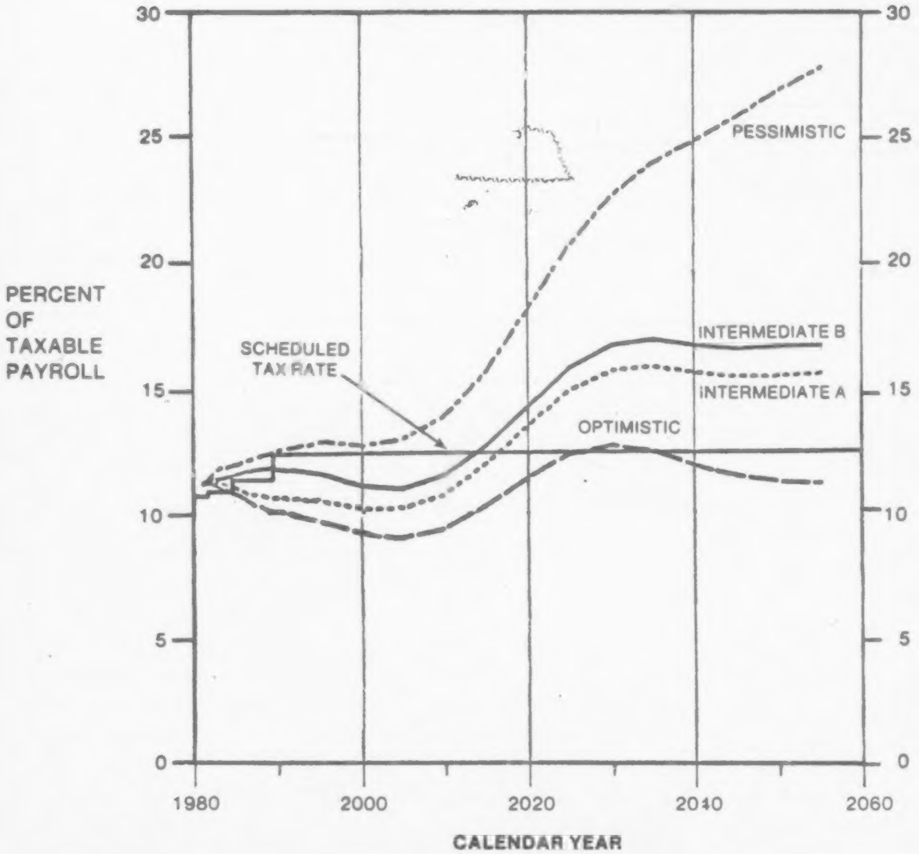
[6] The estimate of the long-run actuarial deficit in OASDI is based on the 1981 trustees report, intermediate II–B assumptions, including the effects of Public Law 97–35. The effects of Public Law 97–123 are not included, but it is estimated that this law will reduce the long-run deficit by 0.02 percent of taxable payroll (from 1.65 to 1.63 percent).

CHART 6

ESTIMATED OASDI OUTGO AND TAX RATES, 1981 - 2055



Under intermediate forecasts for the economy, given current law, annual revenues are expected to begin to exceed annual outgo for OASDI by 1990. Between 1990 and 2015, annual surpluses are expected to build up trust fund levels. Around 2015, annual outgo is expected to begin to exceed annual revenues.

Between 1981 and 2055, average annual outgo is expected to exceed average annual revenues by an amount equal to 1.45% of the average taxable payroll.

Source: Social Security Administration, Summary of the 1981 Annual Reports of the Social Security Board of Trustees, Chart C.

2000, 65 million in 2030, and 69 million in 2055, according to the intermediate estimate.[7]

In relation to the working age population, the elderly grew from 17.4 percent of the working age population (age 20 to 64) in 1960, to 19.5 percent in 1980, and are estimated to be 22.6 percent in 2000, 37.8 percent in 2030, and 37.8 percent in 2055, according to the intermediate estimate.

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[7] Projections of population, labor force participation, and social security costs are from the 1981 trustees report.

The average man reaching age 65 today can expect to live to age 79, on the basis of current mortality rates, as compared to age 77 based on 1940 mortality experience. For women, the corresponding ages are 83 for current experience, versus 78½ for 1940 experience.

The long-term trend has been for fewer people to continue working beyond age 65. Although roughly one out of four persons 65 and over was working in 1954, only one out of eight did so in 1980. The tendency has been particularly strong among male workers—two out of five men age 65 and over worked in 1954, compared to one out of five in 1980.

The same tendency toward reduced labor-force participation is evident among the 60 to 64 age group, although here, the reduced labor-force participation of men has been offset somewhat by the increased labor-force participation of women. Total labor-force participation of men and women in the 60 to 64 bracket declined from 55 percent in 1954, to 45 percent in 1980. Male labor-force participation declined from 84 to 61 percent, while labor-force participation of women increased from 27 to 33 percent.

Because of these four factors, more elderly people will be in beneficiary status for a longer time, thus adding to social security costs. Meanwhile, if the birth rate continues to remain relatively low, and immigration does not increase, those of working age won't increase as rapidly as the elderly. Whereas there are about 3.2 covered workers for every OASDI beneficiary today, there are expected to be only 2 covered workers for every OASDI beneficiary in the year 2030.

While the absolute cost of funding the current structure of benefits in social security is expected to increase substantially over the next 75 years, the cost of social security relative to the economy as a whole will not increase greatly over levels experienced in the 1970's. Currently social security accounts for close to 5 percent of the GNP. Under intermediate II–B assumptions, social security will rise to less than 6 percent of GNP by 2035, declining to 5.4 percent by 2055.

2. Options for Solving the Financing Problems

A. SHORT-TERM OPTIONS

(1) *Interfund borrowing*

Most proposals for solving the short-term financing problem include interfund borrowing or merger of the OASI, DI, and HI trust funds for the next 5 to 10 years. Loans could be authorized among the trust funds, either permanently, or for a limited 5 to 10 years. In effect, the loans would be made from DI and HI to OASI, during that time. OASI could repay the loans, either with interest, or without interest.

Alternatives to interfund borrowing, which would have similar financial effects, are reallocation of the payroll tax rates among the OASI, DI, and HI programs, while holding the total payroll tax rate at the schedule under current law.

Another alternative would be to merge OASI and DI—or even merge all three trust funds—but retain a separate accounting of expenditures under the programs.

None of these alternatives can completely solve the short-term problem. In addition, proposals for interfund borrowing, reallocation, and or merger, must take into account that the HI trust fund, which is now running a healthy surplus in revenues, is scheduled to become depleted in the late 1980's or early 1990's. In the near term, interfund borrowing and merging are intended to make funds available for the OASI program. But after 1990, interfund borrowing or merging of the trust funds would redirect the flow of loans from OASI to HI. The drain of OASI funds to HI beginning in the late 1980's would compound the problems in OASI.

(2) *Increasing Revenues to the System*

The short-term problems could, of course, be resolved by supplying additional revenues to the system. Additional revenues can result from raising the payroll tax, accelerating the scheduled payroll increases, increasing the taxable wage base, financing all or part of the HI program out of general revenues, or by extending social security coverage to new Government employees.

(a) *Increase payroll taxes*

In testimony before the House Social Security Subcommittee, David Stockman stated that a tax increase of 0.5 percent of payroll by employers and employees would be required to finance the near-term deficit under the administration's "worst-case" assumptions.

(b) *Accelerate scheduled payroll tax increases*

The President's Commission on Pension Policy recommended that the present scheduled increases in payroll taxes be accelerated. For example, as mentioned earlier, the scheduled payroll tax increase in 1990 is projected to have an abrupt effect, substantially increasing revenues to the social security system, which was in deficit before that increase. If the 1990 increase were split in half, assessing half of the increase in 1988 and the rest in 1990, this could substantially improve the system's financing in this decade without increasing long-term tax rates.

(c) *Raise the wage base*

In 1982, payroll taxes are only paid on the first $32,400 of income. This amount is adjusted each year for the increase in average annual wages. If the ceiling on payroll taxes were eliminated, $20 to $30 billion a year could be generated. Over the long-term, however, one-third to one-half of the added revenues would be offset by higher benefit costs, because the higher wage base would increase the benefits paid.

In addition, raising the taxable wage base could have a negative impact on private pensions. The National Commission on Social Security, for example, recently expressed concern that increases in the wage base could discourage the supplementation of social security by private pensions. The National Commission recommended freezing the wage base in 1985 and 1986 at the 1984 level (estimated at $39,000). As it stands, the wage base will henceforth be increased each year by automatic adjustment provisions.

(d) *Use general revenues*

The most controversial revenue measure involves the funding of part of social security from general revenues. Proponents cite the advantages to OASDHI of using general revenues to assure continuation of current eligibility and benefit levels when economic conditions diminish payroll tax revenues. Opponents point out that introducing funds which have to be appropriated annually—and can therefore be cut—would jeopardize the benefits of retirees. Additionally, opponents argue it is difficult to justify use of substantial amounts of general revenues to fund social security when other social programs are being cut back and the general fund is already in deficit.

(e) *Social security coverage of new government employees*

Mandatory social security coverage of new Federal. State, and local government employees would produce about $20 billion in revenues over the next 5 years.

(3) *Savings*

(a) *Benefit reductions*

Savings in social security over the next 5 years could be realized through benefit reductions and, to a much lesser extent, administrative changes in the program.

There are several ways of saving money in the short term by reducing the growth of benefits. The major policy decision is how the sacrifice is distributed between current beneficiaries and those coming on the rolls in the next few years. For example, the administration's May 1981 social security proposals, outside the budget proposals, placed great emphasis on minimizing the impact on current beneficiaries while requiring the greatest sacrifice of those turning 62, or becoming disabled, in 1982 or later. Thus, under the administration's plan, particular groups, such as early retirees, would bear the brunt of the short-term sacrifice.

On the other hand, if current beneficiaries shared in the benefit reductions, the sacrifice would be spread among more people (36 million beneficiaries). However, current beneficiaries have already come to depend upon the present value of their benefits, and would have less flexibility than future beneficiaries, to make adjustments in their work/retirement plans.

(b) *Changes in cost-of-living adjustments*

The major proposals for slowing the increase in OASDI expenditures over the next 5 years aim to slow down the automatic adjustment of benefits under current law. There are several possibilities, including: Delaying the cost-of-living increase by 3 months; capping the cost-of-living increase at some percentage of the full increase; using the lower of wages or prices, or using a modified CPI.

(1) *Delaying the COLA increase by 3 months.*—A number of proposals were made in 1981 to delay the CPI increase by 3 months, moving the payment date from July to October. Under intermediate II–B assumptions, these proposals would save as much as $14 billion in 1982–86. These proposals would save up to 0.14 percent of taxable payroll over the next 75 years.

Another possibility is to use a snap-back COLA delay, which would retain the present computation period but move payment of the CPI increase from July to October, and then, after 5 years, revert back to July increases, either in several steps, or all at once. Under intermediate II–B assumptions, estimated savings would be $19.6 billion in 1982–86. It could be done as an emergency, interim measure, that could be rescinded sooner if the economy recovered dramatically. It would mean that each beneficiary would get 3 months less of the annual cost-of-living increase without altering the actual monthly benefit. The calculation of the benefit adjustment would be the same as under present law. So, upon reverting to the present procedure, future social security benefits will not have been permanently reduced.

(2) *Capping the CPI increase.*—Congress could reintroduce an ad hoc element in the adjustment process by legislating a congressional review of the automatic increase each year. In its review, Congress could decide whether the automatic computation is appropriate to the economic situation. For example, Congress could cap the increase at some percentage of the automatic adjustment—85 percent has been an example frequently cited. A crude CBO estimate is that an 85-percent cap would save a cumulative $28 billion in 1982–86 with modest savings in the earlier years and larger savings in 1985–86.

Another approach to ad hoc capping of the CPI increase was proposed by some members of the Senate Budget Committee in 1981. This approach would pay an annual cost-of-living adjustment in fiscal year 1983 and fiscal year 1984 equal to the full change in the CPI, less 3 percentage points (as long as the full CPI is 6 percent or more). If the CPI increase is between 3 and 6 percent, a 3-percent benefit increase would be paid. Unlike the 3-month delay in the COLA, both of these capping proposals would have a dramatic and lasting effect on the real incomes of the elderly. Each time a lower than full CPI increase was paid, the real value of benefits would be reduced for that year. And this decline in real values would become worse in all future years—even if all future COLA's were for the full CPI—because these future increases would be made as a percent increase on a lower benefit amount.

The advantage of this kind of adjustment is that it would restore to the Congress some degree of control over the growth in the cost of entitlement program. Introducing this congressional review would conceivably work both ways. In times of robust economic growth, and lower inflation, Congress might want to add a benefit increase to the automatic adjustment.

(3) *Using the lower of wages or prices.*—Congress could limit the annual cost-of-living increase either to the rise in the CPI or a wage index, whichever is lower. The National Commission on Social Security estimated in 1981 that if such a provision had been in effect since 1977, the social security system would not now face a short-run financing crisis.

The major advantage of using the lower of wages or prices for COLA adjustments is that it adds flexibility to the system. Currently, when prices increase faster than wages, outlays from the system, which are tied to the CPI, increase rapidly, while revenues to the system, which are tied to wages, slow down. Automatically tying benefit increases to wage increases in these periods would help to keep outlays marching in step with revenues, and thereby buffer the financing of the system from poor economic conditions.

The problem with this proposal is that whenever price increases exceed wage increases, it will lower the purchasing power of the social security benefit—even though the actual benefit amount will increase. In addition, unless the benefit amounts are later corrected to compensate for this decline, this reduction in purchasing power will become greater because future cost-of-living increases are being applied to a lower base. The National Commission on Social Security, in recommending the lower of wages or prices, also recommended that a "catch-up" provision also be included to later correct real benefit levels in order to avoid the "ratcheting down" of purchasing power.

Although the wage/price approach would help to buffer the system against poor economic performance, it would not produce large savings for social security under any of the economic forecasts now being used for the next 5 years. Under intermediate II–B assumptions, wage growth is projected to lag behind price increases only in 1981, or in 1981, 1982, and 1983 under "worst-case" assumptions. If wage increases would not be lower than the CPI increases in most years, the benefit increase would remain largely as it is under current law.

(4) *Using a modified CPI.*—Many people believe the CPI has overstated the rate of inflation because it overemphasizes new home purchases. COLA increases could instead be computed by using some other index, such as the CPI adjusted for rental equivalence. This would reduce the COLA increases when mortgage interest rates are extreme. But over the long run, assuming economic stability, the rental equivalence measure would perform like the current CPI. CBO cautions that potential savings are highly uncertain. These indexes can fluctuate in ways that are difficult to forecast. A precise level of savings is, therefore, difficult to guarantee.

B. LONG-TERM OPTIONS

(*1*) *Revenue Increases*

(a) *Payroll taxes*

Additional revenues to finance social security expenditures in the next century could be obtained by increasing payroll taxes. Already, payroll tax rates are scheduled to increase in 1985, 1986, and 1990. The average tax rate for OASDI only in 1982 is 10.8 percent of taxable payroll. Under current law, this average rate is scheduled to rise to 12.4 percent of taxable payroll by 1990, and then remain at that level over the next 75 years—resulting in an average tax rate of 12.25 percent over the 75-year period. To totally finance the projected 75-year deficit, under intermediate assumptions, the average tax rate over this period would have to be raised from 12.25 to 13.90 percent of taxable payroll, beginning in 1982.

(b) *Universal coverage*

Another source of higher revenues is to bring new Federal, State, and local government employees under social security. That would save

0.5 percent of taxable payroll over the next 75 years, or roughly one-third of the estimated OASDI deficit.

(c) *General fund revenues*

Both the 1979 Advisory Council and the National Commission on Social Security recommended that general revenues be used to fund all (Advisory Council) or half (National Commission) of HI expenditures. Both groups recommended that part of the HI tax rate be shifted to OASDI. The Advisory Council recommended that the OASI and DI trust funds be merged, and that the OASDI payroll tax be raised to 7.25 percent in the year 2005 to finance the rising expenditures in the next century. The National Commission would not allow the OASDI and HI rate for employers and employees to exceed 9 percent each.

(d) *Taxing social security benefits*

Several proposals have been advanced over the years to change the tax treatment of social security benefits. Currently, social security benefits are tax exempt, as are many other types of Government income transfers. They differ from benefits from employer-sponsored pension plans which are counted in taxable income once the worker's contributions have been paid back. The tax exemption of social security benefits does not derive from statute, but from an IRS ruling in 1941 that social security benefits were intended to be a form of gift or gratuity.

Proposals to change this tax treatment vary. The 1979 Social Security Advisory Council recommended including 50 percent of the benefit in taxable income, reflecting the fact that the employer contributions to social security have not previously been taxed. Others have suggested that the additional revenues generated through this change could be channeled to the social security trust funds. In 1979, this amount was estimated to be $700 million a year.

The President's Commission on Pension Policy recommended that payroll tax contributions to social security become tax deductible, and that upon retirement, benefits be included in taxable income. As a result, the inclusion of social security benefits in taxable income would be a long-range change not to go into effect in the near future. Eventually, as the tax treatment of social security changed, the earnings test, which is equivalent to a 50-percent tax on earned income, would be eliminated.

The major argument against taxing benefits is that without an offsetting increase in benefit levels, some of the elderly would experience a decline in net income. Actually, the elderly already have special exemptions and tax credits which give them a tax preference over the nonelderly. As a result, a substantial proportion of those receiving social security would not pay higher taxes if their benefits were taxable. In 1979, it was determined that including 50 percent of the benefit in taxable income would result in increased income taxes for those with an adjusted gross income in excess of $20,000 for single persons and $25,000 for joint returns.[8]

Other concerns expressed about the taxation of benefits have emphasized the need to put off implementation well into the future, to eliminate the earnings test, and to redesign the structure of Federal income tax credits, deductions, and exemptions for the elderly.

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[8] U.S. House of Representatives, Subcommittee on Social Security, Committee on Ways and Means, "Background Material on Options for Financing the Social Security Program," committee print report 96–35, 96th Congress, 1st session, Sept. 24, 1979.

Although academics have tended to look favorably upon taxing benefits, there is strong public and congressional opposition to changing the tax treatment of social security. A resolution expressing the sense of the Senate that the Congress not enact legislation taxing social security benefits passed 98–0 on July 14, 1981.

(2) *Benefit Reductions*

There are only two types of benefit modifications seriously being proposed to eliminate the long-range deficit—raising the retirement age, and reducing the initial benefit levels for workers coming on the social security rolls in the future below amounts expected under present law.

(a) *Raising the retirement age*

To curb the growth of social security expenditures, interest has also been focused upon reversing the trend to early retirement.

Three approaches for extending the age of retirement were introduced in 1981. One was to raise the statutory age for full benefits, and also raise the age of eligibility for early retirement benefits in tandem (as in S. 484/S. 1536). A second approach was to raise the age for full benefits, retaining the current early retirement age of 62, but with lower benefits than under current law (as in H.R. 3207). A third approach was to leave the statutory age for full benefits at age 65 but to reduce the benefits paid for early retirement at ages before 65 (as in the administration proposal). Proposals for raising the age of eligibility normally phase in these changes gradually over a long period of time, beginning in 10 or 20 years. The following table illustrates the effect of these three proposals on the benefits of people retiring at the ages shown.

TABLE 4.—PERCENT OF FULL SOCIAL SECURITY BENEFITS BASED ON AGE AT RETIREMENT, CURRENT LAW, AND REFORM PROPOSALS

	Current law	H.R. 3207 (effective 2000)	S. 484/S. 1536 (effective 2012)	Administration (effective 1982)
Age at retirement:				
62	80.0	64		55
63	86.7	70		70
64	93.3	76		85
65	100.0	82	82	100
66	[1] 103.0	88	88	103
67	[1] 106.0	94	94	106
68	[1] 109.0	100	100	109

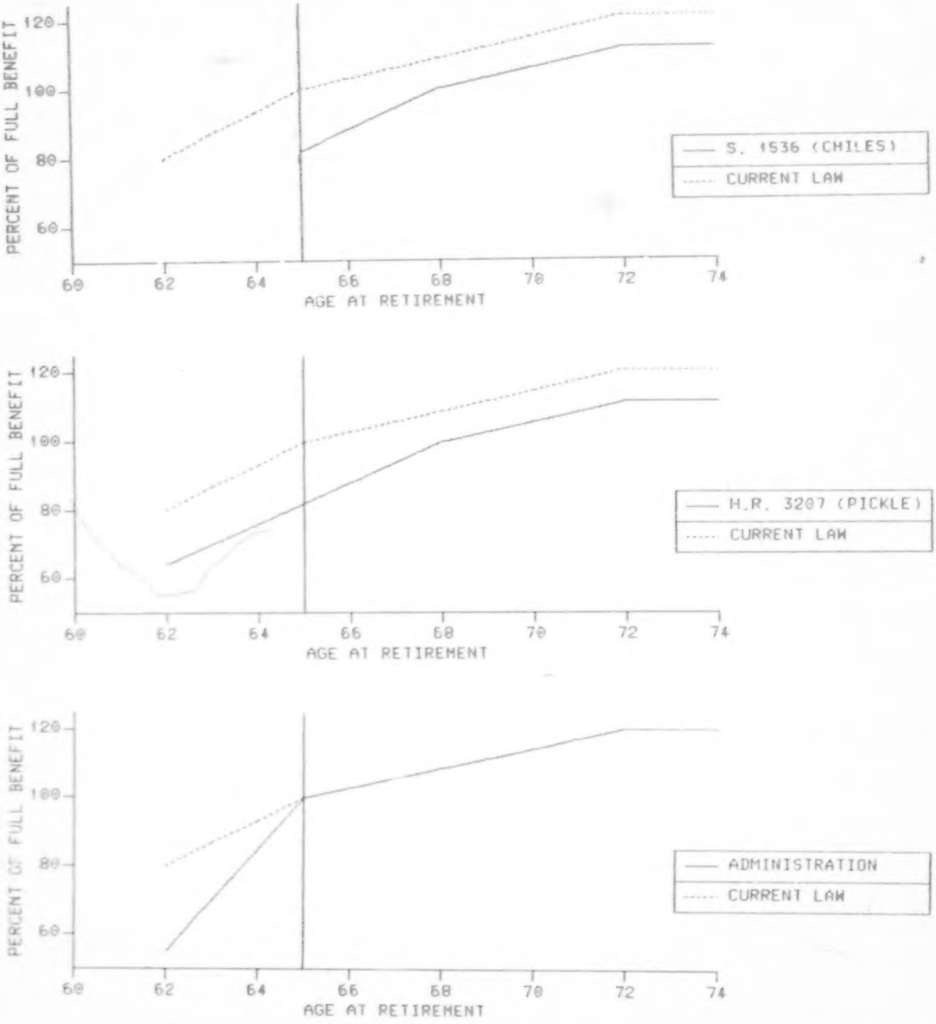
[1] Effective for beneficiaries retiring in 1982 or thereafter.

All three national advisory commissions—the Advisory Council on Social Security, the National Commission on Social Security, and the President's Commission on Pension Policy—recommended that the age for full benefits be raised from 65 to 68, after a long phase-in period.

Raising the retirement age is usually favored as a means for reducing expenditures in the future because of its long phase-in period and because of its correspondence with expected changes in life expectancy,

CHART 7

PERCENT OF FULL SOCIAL SECURITY BENEFITS RECEIVED
BASED ON AGE AT RETIREMENT
CURRENT LAW AND REFORM PROPOSALS



health, and labor supply. This approach would appear to commit the Nation to a policy of maintaining older workers in the labor force. The arguments in favor of raising the retirement age usually mention that the long leadtime will enable those affected to change their retirement expectations, and will enable Congress to design related initiatives to develop job opportunities for older workers, reduce early retirement incentives, and improve income programs for the disabled and unemployed. Supportive arguments also point out that raising the retirement age is justified because Americans are, on average, living longer. A shift to age 68 would be at least equivalent to—and perhaps longer than—the duration of retirement envisaged when the age was first set at 65 back in 1935.

In addition, current preferences for early retirement may be naturally reversed in the future. Demographers project the development of labor supply shortages toward the end of this century which will lead to an increase in the demand for older workers. Today's younger work force may simultaneously want to work longer than today's generation of retirees. On average, they entered the labor force later, have developed higher levels of education and skills, and have worked in less physically demanding occupations than their elders. Raising the retirement age could well conform to this change in preference for work in later years.

Opponents of an increase in the retirement age emphasize that while this approach results in a large reduction in future benefits for future retirees—particularly for those retiring early—it may leave the benefits of most dependents and survivors untouched. The net effect of this change would be to make even greater the redistribution of benefits from single workers to workers with large families.

In addition, there is a conflict between this policy and the current trend toward early retirement. It can well be contended that in the future, as workers realize higher real incomes and improved retirement incomes, they will choose to work less and not more.

Finally, an increase in the retirement age would have disproportionate effects on different categories of workers. There are many categories of workers—primarily those in hazardous or stressful occupations—who will need to maintain the option to retire early. There will continue to be workers with poor health, low skill levels, and inconsistent work histories who will either be unable to work or will be unable to find employment when they are older. For those who can work longer, primarily the white collar and professional workers, raising the retirement age will not affect their monthly benefit amounts. But for the worker who can not work longer, this proposal will substantially reduce the amount of his monthly benefits unless provision is made elsewhere (such as in the disability program) for early retirement for age or health related reasons. In short, the low-income portion of the labor force will suffer most.

(b) *Changing computation of initial benefits*

Besides raising the retirement age, other major proposals to curb the growth of benefits are the proposals to decrease the replacement rates by altering the adjustment of the bend points in the benefit formula.

Proponents of reducing the replacement rate usually believe that high social security benefits have discouraged people from deferring consumption and saving for retirement during their working years. Were social security benefits reduced, there would not only be greater incentive to save, but also greater incentives to develop adequate pension coverage and benefits. Proponents of reducing the replacement rate may also point to the equity of this approach—it tends to affect benefits of all workers and dependents relatively equally and does not alter the progressive benefit structure of social security.

Opponents of reducing replacement rates usually argue that social insurance programs in a normal economy can provide better or equivalent benefits with less risk to the average worker than can pensions or investments. In addition, social security can provide an adequate replacement rate to the lowest wage workers who are unlikely to have pension benefits or savings. Since social security can provide a secure, low-risk foundation for building a retirement income portfolio for the average worker, and it can provide an adequate retirement income for the low-wage worker, public policy should be directed toward increasing public confidence and support for the system and not toward reducing the adequacy of future benefits.

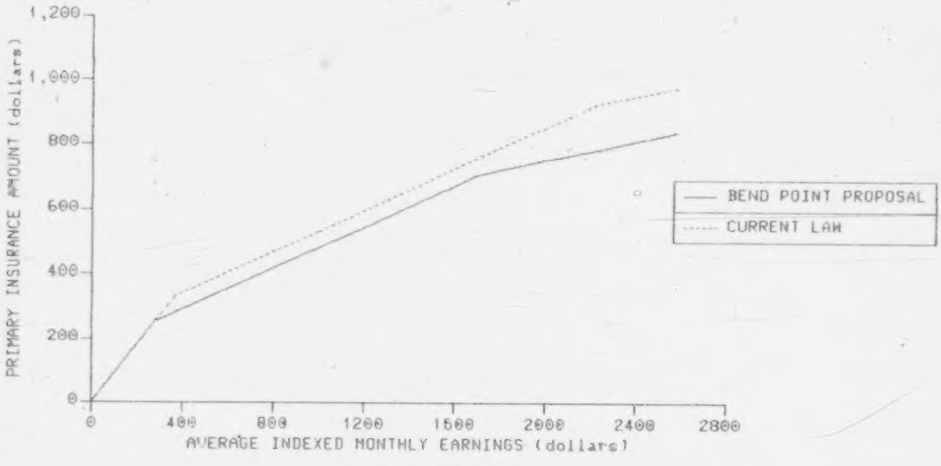
Modifying bend points in benefit formula.—The social security benefit formula is weighted to pay relatively higher benefits to lower-paid workers than to higher-paid ones. This is accomplished by applying a three-bracket benefit formula to the worker's average indexed monthly earnings. To be precise, the formula for persons attaining age 62 in 1981 is equal to the sum of 90 percent of the first $211 of average indexed monthly earnings, plus 32 percent of the amount between $211 and $1,274, plus 15 percent of the amount in excess of $1,274. The dollar amounts at which the percentages change are called "bend points," and these are automatically increased each year—for the group of persons attaining age 62—then by the percentage of increase in national average wages.

The administration proposed that, during the 6 years 1982–87, the dollar amounts of the bend points should be increased by only half of the percentage increase in national average wages, instead of by the full percentage increase in wages. After 1987, the bend points would again be indexed by 100 percent of the change in national average wages.

The effect of this change would be to reduce relative benefit levels by 10 percent below current law.

CHART 8

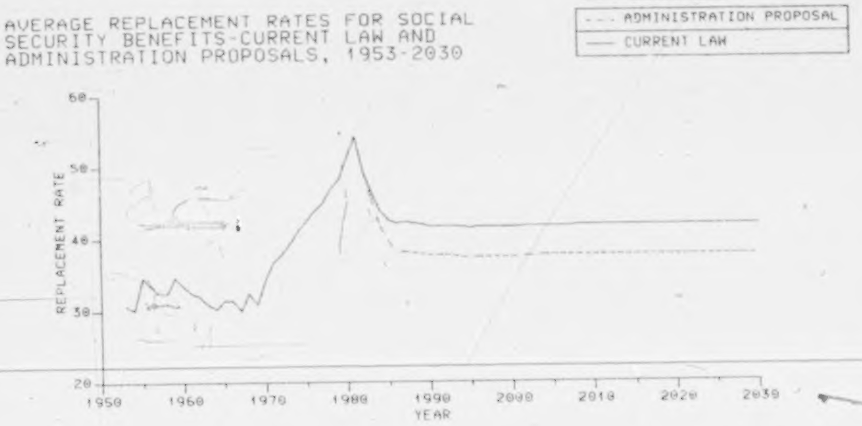
RELATIONSHIP BETWEEN EARNINGS AND SOCIAL SECURITY BENEFITS
CURRENT LAW AND BEND POINT PROPOSAL
1987



Source: Office of the Actuary, Social Security Administration,
June 12, 1981.

The replacement rate—the actual benefit payable as a percentage of the gross pay received just before retirement at age 65—for a worker with a history of average earnings is, under present law, about 41 percent or 42 percent. If this revision in the calculation procedure went into full effect—in 1987 and later—the replacement rate would be about 37 or 38 percent. The administration's bend point proposal would save an estimated 1.30 percent of taxable payroll, far more than the (also substantial) 0.85 percent of payroll saved by penalizing early retirees.

CHART 9


AVERAGE REPLACEMENT RATES FOR SOCIAL SECURITY BENEFITS-CURRENT LAW AND ADMINISTRATION PROPOSALS, 1953-2030

Source: Social Security Administration, "Historical Replacement Rates for Steady Workers" and "Projection of Replacement Rates for Steady Workers". June, 1981.

Price indexing.—Another long-term option is to lower future social security costs by having the initial benefit rise somewhat more slowly than under current law. Under current law, initial benefits rise at the same rate as average wage levels—so that future retirees will receive about the same proportion of their preretirement incomes in benefits as today's retirees. Under a price indexing proposal, past earnings and the bend points in the formula would be adjusted for price instead of wage increases. If wages continue their historical tendency to outstrip prices in the long term, an individual's earnings would rise faster than the adjustments in the benefit formula. Rising earnings would increase the absolute amount of the benefit. But the discrepancy between rising earnings and increases in the formula would have the effect of pushing individuals into higher brackets where the replacement rate is proportionately lower. The size of the benefit would decline in relationship to preretirement earnings, and would not fully reflect improvements in living standards during working lifetimes.

Price indexing would reduce future increases in total benefit expenditures, and roughly offset the effect on benefit costs of the aging population. Benefits would still be protected for inflation, but would not keep up with the rising standards of living. As a result, although initial real benefits would continue to rise, replacement rates would decline in an unpredictable fashion. If Congress did not legislate ad hoc social security benefit increases, and if workers did not supplement their social security income with expanded savings and private pensions, substantial adjustments in living standards might be required of retired persons.

Current law provides stable replacement rates. The administration's bend point proposal would lower the replacement rates by roughly 10 percent below what they would be under current law after 1990, and then stabilize them at the lower level. Price indexing would lower replacement rates to a variable degree—probably to around 25 percent—30 percent for the average worker in the next century.

C. COMMISSION REPORTS AND HEARINGS

Although there were several occasions during the year when Congress seemed ready to address the financial condition of the social security system in comprehensive fashion, no comprehensive bills were ever reported out of committee. However, active discussion of the social security reform options was carried on during the year through commission reports, legislative proposals, and committee hearings.

1. Commission Reports

Discussion of the options for reform of the social security system began with the release of final reports from two commissions: The President's Commission on Pension Policy, which reported in February 1981, and the National Commission on Social Security, which reported in March 1981.

The commissions agreed on several changes in social security to improve its financing, including: Authorization of interfund borrowing among the three trust funds, a gradual increase in the age of retirement from 65 to 68, and an extension of mandatory social security coverage to Government workers. Both commissions also called for an improvement in the special minimum benefit which is paid to long-term workers with low earnings.

A. THE PRESIDENT'S COMMISSION ON PENSION POLICY

The President's Commission was established in 1979 by President Carter to conduct a study of the Nation's pension system and make recommendations for the future course of national retirement income policy. The Commission's final report, entitled "Coming of Age: Toward A National Retirement Income Policy," submitted to President Reagan and the Congress in February 1981, made recommendations for changes in employee pensions, social security, employment and public assistance policy. The Commission found as a general conclusion:

> The social security system generally has been successful in providing at least a minimum floor of income protection for retired and disabled workers and their dependents. However, current economic conditions and long-run demographic trends may be threatening the ability of the system to meet these commitments in the future. In addition, there are prob-

lems in benefit delivery today because social security coverage is not universal for all workers and the benefit structure has not adapted to changes in family work patterns.

Recommendations for changes in social security were as follows:

Financing:
—Authorize interfund borrowing among the OASI, DI, and HI trust funds.
—Accelerate the schedule of payroll tax increases.
—Gradually increase between 1990 and 2002, the age of eligibility for full benefits from 65 to 68, the age for early retirement benefits from 62 to 65, and make disability benefits available up to age 65.

Universal social security coverage:
—Extend mandatory social security coverage to all new Government and nonprofit employees who would otherwise not be covered, with the exception of certain religious groups.
—Eliminate benefit gaps and unintended subsidies to workers who have not had substantial social security coverage.
—Eliminate the option for Government and nonprofit groups to withdraw from social security coverage, encourage these groups to elect coverage.

Tax treatment and earnings test:
—Treat social security contributions and benefits for tax purposes similar to other retirement income programs; taxes on contributions should be deferred, benefits should eventually be subject to taxation.
—Phase out the social security earnings limit as the new tax treatment is phased in.

Spouses benefits:
—Allow earnings sharing at the time of divorce; allow surviving spouses to inherit earnings credits; restrict earnings sharing to retirement and survivors benefits.

Special minimum benefit:
—Improve the social security special minimum benefit which is provided to long-service, low-pay workers, and offset it for employee pension income.

Family benefits:
—Re-examine, and make more rational, the student, young parent's, and parent's benefits.

Indexing of benefits:
—Continue to provide full adjustments in social security benefits, once received, for increases in prices.

B. NATIONAL COMMISSION ON SOCIAL SECURITY

The National Commission was authorized under the Social Security Amendments of 1977 to make a comprehensive study of the social security program. The Commission's final report, entitled "Social Security in America's Future," was submitted to President Reagan and the Congress in March 1981. The Commission found that:

> * * * the social security system is sound in principle and, of all alternatives, is the best structure of income support for

the United States. The major alternatives to social security are either too costly or offer insufficient assurance that income will be there when workers need it. Others are too limited in coverage or in benefits. All would cause serious problems in the course of making the transition from the present system.

Of all sources of retirement, disability, or survivorship income, social security has the best potential for stable real income, especially in times of economic adversity. Social security provides a combination of features that, as a package, are not matched by private pensions or annuity plans: early vesting, automatic indexing to inflation, portability of earnings credits from job to job, benefits to family members, and exemption from taxes.

From its beginning, social security has been an integral part of an American plan under which Government and the private sector cooperate to replace lost income. Since the 1930's, social security, private pension plans, and personal savings have, in concert, achieved an ever-increasing high level of security for the citizenry, while preserving its incentive for a productive life.

The existing social security benefit formula is generally satisfactory for middle- and high-income workers. When combined with the increase in the special minimum benefit and improvements in supplemental security income (SSI), the current formula would also yield a basic floor of protection for those at the lower end of the economic scale * * *

Over the past few years, however, problems have arisen with social security that have generated widespread and increasing concern. As benefits have increased and the system has "matured"—i.e., the first age group of workers completed a full career in employment covered by the program—the fund built up over earlier years has diminished. Current cash benefits are funded almost entirely from current payroll taxes. A combination of inflation and unemployment has forced a drawing down of the social security trust funds, to levels very close to the margin of safety. So essential has the arrival of the social security check become in so many American homes, that for the system to run dry, even for a month, would produce panic as well as hardship * * *

At the other end of the age spectrum, many elderly citizens feel that their social security benefits, even when combined with their income from other sources, are inadequate to meet their basic financial needs and obligations. For many, social security is their only significant source of retirement income. Others, who defer retirement beyond 65, feel their added work effort is not sufficiently rewarded because of the earnings test in the social security program.

In addition, changes in the economic and social roles of many American women have called into question the adequacy and equity of a structure of benefits developed at a time when the overwhelming majority of married women were homemakers, and female economic dependence was the rule rather than the exception. And while the public continues to give the Social Security Administration a high rating for efficiency, service, and courtesy compared with other Government agencies, the very size and scope of the program, as well as the new kinds of programs with more complicated eligibility standards, have put a strain on its staff. Its systems operations must be modernized in order to ensure timely and accurate payment of benefits in the future.

The National Commission made a total of 88 recommendations for changes in social security, the major ones being:

Financing social security and medicare:

—Adjust the tax rate schedule for OASDI over the next 75 years to maintain, on average, a contingency reserve of 1 year's outgo.

—Finance one-half of the hospital insurance program from general revenues, beginning in 1983, using a surcharge on the income tax.

—Adjust the tax rate schedule for the remaining half of hospital insurance over the next 75 years to maintain, on average, a contingency reserve of 1 year's outgo.

—Use the reduction in HI payroll tax rates to finance OASDI.

—Authorize borrowing among the OASI, DI, and HI trust funds on a permanent basis.

—Authorize emergency borrowing by any of the trust funds from the General Treasury until the end of 1985.

Retirement age under social security:

—Gradually increase the age of eligibility for full benefits from 65 to 68 between 2001 and 2012, and increase corresponding minimum ages by 3 years over the same period.

—Provide larger increases in benefits for delayed retirement.

Earnings limitation:

—Retain the earnings limit and the current age of exemption from the earnings limit (age 72).

—Provide a refundable tax credit, increasing with age, to partially offset the effect of the earnings limit on social security benefits.

Benefit amounts:

—Increase the maximum family benefit in disability cases to the smaller of (a) 80 percent of the individual's high 5 years indexed earnings, or (b) the family maximum for OASI benefits.

—Change the special minimum benefit by increasing the maximum number of creditable years by 5 years and permitting up to 10 child care years as creditable.

—Reduce automatic benefit increases when prices rise more rapidly than wages for 2 consecutive years for the excess of prices over wages, with a retroactive "catch-up" in future years if wages rise more rapidly than prices.

—Eliminate the "windfall" portion of benefits arising from periods of noncovered employment for future beneficiaries.

Miscellaneous benefit provisions:

—Suspend student benefits for months when the beneficiary is not attending school full time.

—Divide total benefits equally between two spouses when either spouse elects to receive a separate benefit check.

—Eliminate marriage and remarriage as conditions for termination of benefit entitlement.

Universal social security coverage:

—Extend mandatory social security coverage to all Government employees not now in a retirement system, and extend mandatory hospital insurance coverage to all Government employees—effective in 1982.

—Extend mandatory social security and hospital insurance coverage to all employees of nonprofit organizations, except certain religious groups, in 1982.

—Extend mandatory social security coverage to all Government employees now in a retirement system in 1985.

—Eliminate the option for State and local governments and nonprofit organizations to withdraw from social security coverage.

Other recommendations:

—Raise minimum earnings requirements for coverage for self-employed, domestic workers, and casual laborers.

—Extend payroll tax coverage to payments made directly by an employer to an employee on account of sickness for periods up to 6 months.

2. Committee on Aging Hearings

On May 12, 1981, the administration announced its proposals to resolve the financing problem in social security. These proposals were actively debated in Congress, even though they were never formally introduced as legislation. The administration proposals were a subject for extensive discussion in hearings throughout the summer of 1981. In the Senate, hearings on social security were conducted by the Committee on Finance and by the Special Committee on Aging. The Committee on Finance held 3 days of hearings in July, considering a broad range of options for reform.

The Special Committee on Aging held four hearings on financing issues in social security in response to the administration reform proposals. The hearings began in June, with consideration of the short-term financing problem, and ended in September, with a review of options to resolve the long-term financing problem. In the second and third hearings, the committee considered two factors which contribute to these problems: early retirement and the automatic cost-of-living adjustments. In addition, the committee held hearings in Illinois and Arkansas which addressed social security problems.

A. SHORT-TERM FINANCING ISSUES

The Aging Committee met on June 16 to review the dimensions of the immediate financing problem in social security and get beyond the rhetoric of imminent bankruptcy and financial collapse. Four experts appeared before the committee and explained their views on the dimensions of the short-term deficit.

Senator John Heinz, chairman of the committee, opened the hearings by pointing out that although the first hearing was focused on the short-term problem, it was important to view that problem in the context of the overall mission of the Congress to assure adequate financing for the social security system to meet both its present and future obligations. He stated the purpose of the hearing was to clearly define the dimensions of the immediate financing problem. He noted there was considerable confusion regarding the magnitude of the shortfall over the next 5 years. Differences in estimates of the shortfall resulted from the variations in the economic forecasts used, and disagreement over the amount of trust funds which should be held in reserve to buffer against economic fluctuation. It was noted that before options for increasing trust fund reserves could be considered, a clear understanding was needed of the minimum allowable reserves and the cost to the system of developing those reserves.

The hearing focused on the risks that would be involved in using various economic forecasts and trust fund reserve targets in determining the amount of added savings or revenues needed to assure adequate short-term financing. Robert Myers, Deputy Commissioner for Programs for the Social Security Administration, suggested that the Congress should "hope for the best, but plan for the worst" in responding to the short-term problem. He advocated the use of pessimistic economic assumptions to ensure there will be adequate reserves to meet benefit payments.

Mr. Myers pointed out that the social security trust funds should never be allowed to decline to less than 14 percent of the amount the system can be expected to pay out during the given year. He recommended that the minimum fund ratio at the beginning of a year should be between 20 and 14 percent, and over the long run, it should be built up to 50 percent.

The net effect of this approach is to anticipate the need, in the worst case, for over $100 billion in added revenues or savings between 1982 and 1986.

Dr. Henry Aaron, senior fellow at the Brookings Institution, and former chairman of the 1979 Advisory Council, stressed the need to buffer the social security system against short-term economic fluctuation. Recent economic events have depleted reserves so much that they now are inadequate unless the economy performs better than it is reasonable to expect. He therefore recommended legislative planning on the basis of economic assumptions that are somewhat less favorable than our best guess of the future. He also advised that buffers be built into the system so that it is less sensitive to poor performance of the economy than it is today.

Dr. Aaron suggested the financing of the system would be less sensitive to economic changes if:–

—Benefits were indexed to the lesser of the rate of growth in wages or prices, or

—The trust funds were granted authority to borrow from the Treasury when reserves sink to unacceptably low levels, or

—General revenues were used to finance part of the system.

Without buffers in the system, it will be necessary, as Dr. Aaron pointed out, to maintain adequate trust fund reserves by either increasing revenues or reducing benefit payments. Dr. Alice Rivlin, Director of the Congressional Budget Office, and James Swenson, chairman of the committee on social insurance of the American Academy of Actuaries, discussed the reserve margin which should be maintained over the next few years, and the costs of maintaining this margin. Dr. Rivlin commented that reserves equal to 9 percent of annual outlays was the absolute minimum necessary in order to insure the continued flow of benefit payments. She also noted that studies have shown balances of 60 to 100 percent of outlays are needed to make sure that there are sufficient trust fund reserves to withstand a recession slightly more severe than that which occurred during the 1974–75 period.

She estimated that $80 to $130 billion in additional funds would be needed by the social security system to reach a level of 50 percent of outlays by 1986. A reserve of 25 percent would also be above the absolute minimum needed and would require $11 to $54 billion in added income or reduced benefits over the 1981 to 1986 period. Dr. Rivlin said, however, this level of reserves would not be adequate to weather a downturn in the economy.

Mr. Swenson suggested that a reserve of 25 percent of payouts was "a minimally acceptable reserve level" in combination with a buffer or "safety-valve" provision, like indexation of benefits for the lesser of wage or price increases. Under these circumstances, the Congress could rely on "best-estimate" or middle-range economic forecasts, rather than pessimistic forecasts, in estimating the size of the deficit. Maintenance of the 25-percent minimum reserve level, under best estimate assumptions would require approximately $65 billion of additional taxes or benefit reductions between 1982 and 1986.

B. EARLY RETIREMENT

In the second hearing on social security, on June 18, the committee heard from four witnesses testifying on the incentives for early retirement and the impact of early retirement on social security financing. The administration's May 12 social security proposals, which would have reduced benefits for early retirement, raised the issue of the impact of a trend toward increasing early retirement on the social security trust funds. Since 1960, the proportion of men aged 60 to 64 participating in the labor force has dropped from 81 to 61 percent.

Senator John Heinz, in opening the hearings, suggested that while increasing numbers of older workers are taking early retirement, many of them would like to continue working. He emphasized the importance of enabling older persons to choose freely when to work and when to retire. He called for a closer look at private pensions and personnel policies in order to identify discriminatory obstacles which force older workers into early retirement, and new approaches to promote retention policies and new employment opportunities for older workers.

Dr. Robert Clark, associate professor of economics at North Carolina State University at Raleigh, provided some background information on the trend toward early retirement and the structure of incentives influencing this trend. In the area of employer pensions, Dr. Clark discussed three features in pension plans which encourage workers to retire early. First, there is a point in most pension plans after which continued work does not increase the value of an individual's pension benefit. Second, in many plans, an individual can elect to retire early and receive pension benefits without any penalty in the total value of their pension benefits. Third, with some pensions, primarily Federal civil service and social security, which provide full cost-of-living adjustments, it is possible that the value of pension benefits can increase more rapidly than wages when the economy is sluggish.

Dr. Clark further pointed out that liberalization of social security benefits over time has helped foster the trend toward earlier retirement. However, the effects of social security on an individual's retirement decisions may today be somewhat contradictory, since social security both penalizes and subsidizes continued work. The penalty comes through the earnings test which is in effect a 50-percent tax on earnings. However, an individual working longer can improve his benefit, and actual monthly benefits are higher if retirement is delayed.

Anna Rappaport, an actuary and vice president of William M. Mercer, Inc., Chicago, Ill., discussed the difficulty of drawing the line between work and retirement, since many people continue to earn some income and collect pension benefits as they grow older. Ms. Rappaport emphasized the need to provide options for part-time work and flexible work schedules, and to develop a gradual rather than abrupt form of retirement. She called for public policy to recognize and support a cyclical life pattern which would enable people to alternate periods of work and leisure throughout their lives.

Additional thoughts on the incentives and disincentives to early retirement were provided from the perspective of management and labor by Daniel Knowles, vice president of personnel and administration at Grumman Aerospace, Inc., and by Howard Young, director of the social security department of the United Automobile Workers.

C. COST-OF-LIVING ADJUSTMENTS

In the Aging Committee's third hearing on social security on June 24, 1981, the committee heard testimony from three witnesses on the question of changing the method used in determining the annual cost-of-living adjustment in social security benefits. In May, the Senate approved by a vote of 49 to 42, a provision in the First Concurrent Budget Resolution, later dropped in conference, which would have indexed social security benefits for the lesser of the increase in wages or prices. This vote was a reflection of a growing interest in the Congress in controlling the rapid growth in social security benefit payments.

The purpose of the Aging Committee's hearing was to review the arguments for and against changes in the cost-of-living adjustment in light of their impact on the adequacy of retirement income. At the heart of this controversy is the contention that the Consumer Price Index, because of peculiarities of its construction, has risen more rapidly in recent years than the prices actually paid by the average consumer. However, even if the social security benefit is adequately adjusted for inflation, much of the income retirees and their families depend upon is not. Few private pension plans have automatic cost-of-living increases. Most plans provide ad hoc pension benefit increases which rarely keep pace with inflation. In addition, earned income for the elderly has dropped significantly over the past decade.

Despite these shortcomings in retirement income programs, there can be no denying that automatic cost-of-living indexing, at least the way it is currently structured, is producing serious problems in the financing of social security benefits. A 14.3-percent increase in benefit payments in 1980 cost the social security system over $16.8

billion a year. This increase in payments came at a time with unemployment at 7.1 percent and wage growth at only 9.1 percent, which together slowed the rate of increase in revenues.

The three witnesses agreed that the Consumer Price Index (CPI) was not an accurate measure of inflation, but disagreed on whether or not it should be revised. Joseph Minarik, research associate from the Brookings Institution, called the present indexation system inaccurate and urged that the Consumer Price Index be revised. James Storey, director of the Income Security and Pension Policy Center at the Urban Institute, questioned whether the CPI could be improved to be a satisfactory tool for indexing benefits. Inevitably, there is no way a price index which reflects composite prices of a standard set of goods can accurately measure the level of well-being for a particular group of people. He questioned whether a revision in the CPI would necessarily improve it, quoting a recent report: " 'There is no unique indisputable yardstick' for indexing Federal benefits." James Hacking, assistant legislative counsel from the National Retired Association/American Association of Retired Persons, opposed alterations in the construction of the CPI merely for the purpose of slowing the rate of increase in the index. He emphasized that studies have shown that the rate of inflation revealed through the CPI and the rate of inflation in a typical elderly market basket are very similar. While the elderly are overcompensated for increase in the price of homes, they are undercompensated for increases in the price of food, fuel, and medical care.

All three witnesses agreed that, even with adequate or overgenerous indexing in social security benefits for inflation, the elderly were still experiencing a decline in their purchasing power overall, since only 60 to 70 percent of the total income of the elderly is protected from inflation. Mr. Storey cited an Urban Institute study that had shown that between 1974 and 1980, the real income for the aged declined 7 to 8 percent for older married couples and 3 to 4 percent for single individuals.

On the issue of whether there should be a change in the method of making cost-of-living adjustments, there was also disagreement. Mr. Minarik advocated a revision in the CPI, and if necessary, adjustment for wage increases when the economy was stagnating, with a "catch-up" provision to pay back beneficiaries when the economy improved. Mr. Storey opposed changes in the COLA, but remarked that if it were absolutely necessary, Congress should adjust benefits for a proportion of the full CPI. This reduction would compensate for any inaccuracies in the CPI. Mr. Hacking opposed any changes in COLA's, noting that retirees, because they are not wage earners and have many fixed components to their income, have no expectations for recouping the inflation losses they have already incurred and will continue to incur as long as inflation persists.

He pointed out that the elderly's real income situation and their standards of living are declining and poverty rates among them are rapidly escalating despite the provision of relatively full cost-of-living increases by the major income support programs.

Mr. Hacking warned that curtailing increases in any manner, especially by a relatively permanent change in the indexing through use of a wage or overall cap or a revised CPI, could easily reduce the nation's elderly to the economic level that prevailed a decade ago, when one out of every four of them were below the poverty level.

D. LONG-TERM FINANCING

The September 16, 1981, hearing, "Social Security Reform and Retirement Income Policy," concluded the series of four hearings on social security. In this hearing, the Aging Committee reviewed the nature of the long-term financing problem and assessed the impact on retirement income of two widely discussed proposals to improve the long run financial condition of social security: raising the retirement age and reducing social security replacement rates.

Five witnesses testified before the Committee. Joseph Anderson from the research firm, ICF, Inc., discussed the causes of the long-run problem. He emphasized the increasing number of years individuals are drawing benefits from social security as a result of increasing average life expectancy at retirement, and earlier average retirement ages. Increases in life expectancy are expected to continue in the future. He pointed out that the long-term problem was not an economic problem, so improvement in the economy will not resolve the deficit. He pointed out that the solutions to the problem are either to raise taxes significantly, find other revenues, or reduce future benefits.

Alicia Munnell, vice president of the Federal Reserve Bank of Boston, and Peter Diamond, professor of economics at Massachusetts Institute of Technology, discussed the relative advantages and disadvantages of raising the age of eligibility for full benefits in social security from 65 to 68, as opposed to reducing the proportion of preretirement earnings paid in social security benefits (reducing the replacement ratio). Dr. Munnell pointed out that the burden of a large dependent, aged population, is inescapable and if it is not supported through social security, the working population will probably end up providing equivalent support through some other program. "If you have to cut the program," she concluded, "I argue for extending the retirement age provided you have a good additional program to pick (those who cannot retire later) up." She indicated that proposals like the President's proposal to lower benefits for future retirees by 10 percent across the board would hurt half of the population which does not have access to private pension plans and will not have access to private pension plans in the future.

Professor Diamond pointed out that raising the retirement age was equivalent to a benefit cut. He added that it was a bad way to design the benefit cut because it made large cuts for early retirees and small benefits cuts for those retiring late.

He also emphasized that those retiring early are a particularly vulnerable population, i.e., people with health problems not severe enough to receive disability benefits and people with long-term unemployment. Noting that no other programs exist to deal with these people, he concluded that a decision to reduce future benefits through a change in the benefit formula could be more directly targeted by Congress.

The final panel for the hearing consisted of Peter McColough, representing the President's Commission on Pension Policy, and William Greenough, representing the Committee for Economic Development. Both groups called for an increase in the social security retirement age. They stressed, as had Dr. Munnell, that life expectancy was 3 years longer on average than when the social security program was inaugurated. With most people working in less stressful jobs, and an expected shortage of labor in the future, it makes sense to expect those due to retire in the next century to work longer. Mr. McColough expressed the view that the financial problems of social security and the Nation's elderly cannot be solved by looking solely at the social security system. He concluded that the role of private pensions should expand in the future, but that expanded coverage under private pensions would require a mandate from the Government.

Mr. Greenough agreed that expansion of private pensions was an essential condition of adequate retirement income in the future. However, he concluded that firms could be expected voluntarily to expand private pension plans in the future to cover a larger proportion of the population.

Senator Heinz emphasized the need to respond to the long-term deficit:

> We do not know for certain whether the demographic patterns that we forecast today are going to take place, but they are our best guess and as such we would be well-advised not to ignore them * * * It is my feeling that it would be a mistake for the Congress to simply decide that * * * we have to make the social security system totally sound for the year 2050 * * * By the same token, for us to ignore these trends and not take any action * * * would be, in my judgment, equally short-sighted and dangerous.

E. HEARINGS IN ILLINOIS AND ARKANSAS

With the intention of soliciting the perspective of retired workers and members of the business and labor communities on the options available to strengthen the social security system, Senators Charles Percy and David Pryor conducted Committee on Aging hearings in Illinois and Arkansas during the year.

(1) *Illinois*

In Evanston, Ill., Senator Percy and the Deputy Commissioner of the Social Security Administration described the funding problems faced by social security during the next several years.

Members of the Illinois Chamber of Commerce described the problems of small and large businesses with "ever-increasing costs of group insurance and social security," and testified in favor of requiring social security coverage of Federal, State, and local government employees, modifying the social security cost-of-living adjustments, and enacting interfund borrowing to relieve the short-term funding problem. To help prepare for the longer-range future, business community witnesses generally supported measures which would discourage early retirement and raise the age at which full benefits would be available from 65 to 68.

Witnesses representing labor and the elderly stressed the significant role which social security benefits play in economic security for retired workers. Many acknowledged that some actions would need to be taken to avert funding problems both for the short and for the long term, but, as one witness said:

> Hopefully this can be done in a manner that will cause the least harm to the smallest number of people and accomplish it without breaking faith and trust with the people.

A number of witnesses expressed fears that even though the short-term social security problem might be easily manageable, the need to make adjustments very soon might be used to make unnecessary benefit cuts. While most witnesses did not directly endorse changing the social security retirement age, many felt that some steps could be fairly taken to discourage early retirement.

(2) *Arkansas*

A May 1981, hearing in Rogers, Ark., focused on the effect changes in social security retirement age policies might have on work and income for those over the age of 65.

Witnesses who were currently receiving social security retirement benefits described their desire to continue working, and their discouragement at not being able to find jobs. Most stressed elimination of the social security earnings test and development of new job opportunities for older workers as needed policy changes.

A consultant with the Arkansas Industrial Development Commission described why proposals for reducing social security early retirement benefits and raising the age for social security eligibility "set off alarms" to many Arkansas employers. They fear (1) that the rate of worker progression would be slowed, (2) that a generally older work force would raise fringe benefits and workmen's compensation costs, and (3) that a lessening of dexterity and coordination with age would lower productivity in the "assembly line oriented" industries which form a large part of Arkansas employment.

A University of Arkansas psychologist described research which found older workers fully capable of working with job performance equal to younger workers. He also described, however, "massive problems" for older job seekers, including: (1) Lessened mobility, prohibiting movement from town to town or city to city to take available jobs; and (2) less formal education than younger workers, making their skills less suitable in an increasingly technical job pool and most often employed in declining industries, where job availability is lower every year.

All witnesses urged rapid and close attention, on the part of both government and business, to developing alternative work modes for older workers, emphasizing special skill utilization.

D. LEGISLATION IN 1981

Although there was a great deal of discussion of a comprehensive legislative package to resolve the financing problems in social security, no bills were ever reported out of committee that addressed completely either the short- or the long-run financing problems. Instead, congressional action on social security was confined to benefit changes to reduce fiscal year 1982 budget outlays, as part of the Omnibus

Budget Reconciliation Act of 1981 (Public Law 97–35), and minor revenue changes attached to the bill to restore the minimum benefit (H.R. 4331), enacted as the Social Security Amendments of 1981 (Public Law 97–123).

The year began with an intense interest in finding comprehensive solutions to social security's financing problems. By the end of May, there were three major bills in the Congress, and an announced set of proposals for reform from the administration. However, work on the budget and tax legislation took priority, and discussion of changes in social security began largely in the context of the need for budget savings. The Omnibus Budget Reconciliation Act of 1981, including several changes in social security benefits, was signed by the President in August. Meanwhile, growing public opposition to both the administration reform proposals, and to the provision in the Budget Act eliminating the minimum social security benefit, dampened congressional enthusiasm for comprehensive solutions to social security's financing problems.

After the August recess, Congress returned to the issue of social security financing. This time, however, emphasis was placed on restoring the minimum benefit and enacting only those changes necessary to delay the onset of the financing crisis. This change in mood led the President to withdraw the administration proposals from active consideration in September. At the same time, the President called for the formation of a 15-member, bipartisan, executive-legislative task force to find a viable solution to the financing problem. This task force—the National Commission on Social Security Reform—was established on December 16. Simultaneously, Congress passed legislation restoring the minimum benefit for current beneficiaries, and bolstering the old-age and survivors insurance (OASI) program for another year. As a result, solutions which had seemed imminent in the spring were now postponed for at least a year.

1. MAJOR LEGISLATIVE PROPOSALS

Three bills, introduced in the Congress in the spring of 1981, suggested major changes in the old-age, survivors, and disability insurance programs to improve their short term and long term financial condition: S. 484 (Senator Chiles), H.R. 3207 (Representative Pickle), and H.R. 3393 (Representative Pepper). All three bills incorporated interfund borrowing to extend the solvency of the OASDI fund in the short term, and included general revenue financing of hospital insurance to increase revenues for OASDI in both the short and the long run. In addition, bills introduced by Senator Chiles and Representative Pickle would have phased in an increase in the social security retirement age around the turn of the century to avoid the long-run deficit.

A. S. 484/S. 1536

This bill was introduced by Senator Chiles, ranking minority member of the Special Committee on Aging, on February 17. The bill contained the following major provisions:

Interfund borrowing.—Would authorize limited borrowing among the OASI, DI, and HI trust funds. Until fiscal year 1991, a trust fund would be permitted to borrow when the fund had less than 25 percent of a year's outlay, and would be required to repay the loan, with interest, when its assets exceeded 30 percent of a year's outlay.

General revenue financing of HI.—Would allow up to 70 percent of hospital insurance to be funded from general revenues, beginning in 1983, and would reduce the HI payroll tax rate correspondingly.

Payroll tax exemption.—Would exempt persons 65 and over and their employers from payroll taxes, beginning in 1982. Revenue losses would be made up from general revenues.

Retirement age.—Would raise the age of eligibility for full benefits from 65 to 68 gradually between 2000 and 2012. It would raise early retirement age to 65 and age of eligibility for widow(er)s to 63.

Earnings limitation.—Would eliminate the earnings limitation for everyone over 65 in 1986 and raise the exempt age from 65 to 68 in tandem with the retirement age.

Minimum benefit.—Would eliminate the minimum benefit only for new retirees.

Student benefit.—Would eliminate student benefits for new beneficiaries, and would phase out benefits for current beneficiaries over 4 years.

A second version of this bill was introduced as S. 1536 by Senator Chiles and Senator Inouye in July, which did not include the provision for general revenue financing of hospital insurance. Neither S. 484 nor S. 1536 were reported out of the Finance Committee, though the minimum benefit, student benefit, and interfund borrowing measures were addressed in final social security legislation.

B. H.R. 3207

The Social Security Subcommittee of the House Ways and Means Committee began exploring the system's financing problems in January, leading to tentative approval of over 20 changes in the program in April. These proposals were incorporated into H.R. 3207 which was introduced in the House by the chairman of the Social Security Subcommittee—Representative Pickle—on April 9.

The bill contained the following major provisions:

Interfund borrowing.—Would authorize limited borrowing among the OASI, DI, and HI trust funds. Until fiscal year 1991, a trust fund would be permitted to borrow when the fund had less than 20 percent of a year's outlays, and would be required to repay when its assets exceeded 25 percent of a year's outlays.

General revenue financing of HI.—Would permanently reallocate 50 percent of the HI payroll tax rate to OASDI with restoration of these payroll tax revenues from general revenues.

Retirement age.—Would raise the age of eligibility for full benefits from 65 to 68 between 1990 and 2000, but would continue to allow workers to retire at age 62, paying only 67 percent of full benefits at this age.

Earnings limitation.—Would lower the exempt age to 71 instead of 72 in 1982; would lower the exempt age to 68 in 1983; and would repeal the delayed retirement credit.

Minimum benefit.—Would eliminate the minimum benefit for those eligible after December 1981.

Student's benefits.—Would phase out students benefits for new beneficiaries over 4 years beginning with the 1983–84 school year, and would provide no increases for current beneficiaries.

Parent's benefits.—Would terminate benefits for surviving parents when the youngest child reached 16.

COLA's.—Would move the date for payment of the cost-of-living increase from July to October by paying half of the 1982 increase in May and half in October.

Windfall benefits.—Would combine earnings from social security covered and noncovered employment to calculate average earnings for purposes of computing social security benefits, beginning with earnings from 1980.

H.R. 3207 included, as well, several provisions on disability insurance, and a variety of minor administrative adjustments in social security which would have resulted in savings to the trust funds.

Mark-up of H.R. 3207 was begun on May 6, and on May 13, the Social Security Subcommittee voted to approve a package of outlay reduction proposals, most of which were among the provisions of H.R. 3207, to meet the subcommittee's fiscal year 1982 outlay reduction target for the budget. The remaining provisions of H.R. 3207, primarily provisions aimed at the long-run financing problem, were not reported out of the subcommittee.

On November 4, Representatives Pickle and Conable offered an amendment in the subcommittee to H.R. 4331 which ~~included~~ three new proposals for resolving the long-run financing problem, plus six already approved sections from H.R. 3207 regarding the disability insurance program. The amendment was directed primarily at the long-term financial problems facing the social security OASDI program, and was composed of three parts which would:

(1) Restrict the increase in the basic benefit formula bend points to one-half the increase in wages for 3 years, 1983–1985.

(2) Move the age for full retirement to age 66 by the year 2000, with age 62 retirement available at 70 percent of a full benefit and with a full actuarial bonus for those delaying retirement to age 67 or 68.

(3) Provide that cost-of-living increases be based on the lower of the increase in wages or prices, beginning in 1983.

The Pickle/Conable amendment would save 1.58 percent of payroll over the long term, compared to a projected long-term deficit in social security of 1.65 percent of payroll.

This amendment was rejected by the subcommittee.

C. H.R. 3393

This bill was introduced by Representative Claude Pepper, chairman of the House Select Committee on Aging, on May 1, as part of a package of five bills on retirement income. The major provisions of the bill were:

Interfund borrowing.—Would authorize unlimited borrowing among the OASI, DI, and HI trust funds when any fund had less than 3 months outlays on hand.

General revenue financing of HI.—Would fund 70 percent of the cost of hospital insurance from general revenues, and would shift a corresponding portion of HI payroll taxes to OASDI.

Earnings limitation.—Would liberalize the earnings limit by reducing the rate at which benefits are offset at lower levels of earnings.

Delayed retirement credit.—Would increase the delayed retirement credit from 3 percent (1982) to an average of 5 percent per year.

Special minimum benefit.—Would increase the special minimum benefit, increase the number of countable years by 5 years, and allow up to 10 child care years to be counted.

The Pepper bill was not reported from committee.

D. ADMINISTRATION PROPOSALS

The administration announced, on May 12, a package of proposals that were a dramatic departure from the legislation that had been introduced in the Congress thus far. Almost all of the major bills in Congress at the time relied on general revenue financing of hospital insurance to provide necessary revenues in both the short term and the long term. In addition, two of the bills included a phased-in increase in the retirement age to resolve the long term financing problem.

The administration in its proposal rejected both general revenue financing and an increase in the retirement age. Instead, the administration relied primarily on targeted reductions in benefits in the short run, and a slowdown in future benefit increases in the long run, to resolve the financing problem. The administration, in making its proposals, assumed that interfund borrowing would be enacted. In addition, the administration proposed that if savings targets were surpassed after implementation of their package, the scheduled increases in the payroll tax rate could be reduced. The major provisions included in the administration package were:

Early retirement benefits.—Would reduce, effective in 1982, the proportion of the full benefit paid for retirement before age 65. The proportion of the full benefit paid at age 62 would be reduced from 80 percent to 55 percent, with prorated reductions at other ages up to 65.

Primary insurance amount.—Would restrain the increase in future benefits by making only half of the adjustment in PIA formula bendpoints between 1982 and 1987.

AIME computation.—For those retiring before age 65, it would reduce the average indexed monthly earnings—the amount used in computing the basic benefit—by changing the computation point from age 62 to age 65, thus increasing the total number of years of earnings averaged.

Child's benefits.—Would eliminate benefits for children of retired workers age 62 to 64.

Windfall benefits.—Would reduce social security benefits for workers with a pension based on earnings from noncovered employment, with a guarantee that the total social security and pension benefit would not be less than the present law social security benefit plus 50 percent of the worker's pension.

Maximum family benefit.—Would reduce the OASI maximum family benefit for new retirement and survivor cases effective in 1982, by applying the more restrictive formula for the DI maximum family benefit to OASI.

COLA's.—Would move the date for automatic increase of benefits for the cost-of-living from June to September, and change the computation period from first quarter comparisons to comparisons of annual averages.

Earnings limitation.—Would raise earnings limitation for beneficiaries age 65 and over in 1983, 1984, and 1985, and eliminate it altogether in 1986.

Taxation of sick pay.—Would extend payroll tax coverage to wages paid by employers to absent ill or injured employees during the first 6 months of absence.

Disability.—Would limit qualification for disability benefits to purely medical disability only; extend the required prognosis of disability from 12 to 24 months; increase the number of quarters of work required for insured status from 20 to 30 out of the 40 quarters preceding disability; increase the waiting period after the onset of total disability from 5 months to 6 months.

The administration's proposals to make major reductions in early retirement and to significantly curtail eligibility for disability benefits met with immediate opposition in the Congress. On May 20, the Senate voted 96-0 to pass a resolution which stated:

> * * * Congress shall not precipitously and unfairly reduce early retirees' benefits; and * * * will not support reduction in benefits which exceed those necessary to achieve a financially sound system and the well-being of all retired Americans.

The Senate Committee on Finance moved to active consideration of social security legislation on September 23, limiting action to restoration of the minimum benefit and additional minor amendments to H.R. 4331; and on September 24, the administration's May 12 proposals were publicly withdrawn by the President in a nationally televised speech.

2. OMNIBUS BUDGET RECONCILIATION ACT OF 1981 (PUBLIC LAW 97-35)

Changes in the benefit provisions of the old-age, survivors, and disability (OASDI) program were made in the Omnibus Budget Reconciliation Act of 1981. Most of the social security provisions in the Omnibus Budget Reconciliation Act were proposed by President Reagan in the fiscal year 1982 budget announced in March. The House added some minor provisions which were agreed to in conference. The resulting conference report was passed by the House and the Senate on July 31 and signed into law on August 13.

A. MINIMUM BENEFIT

Section 2201 of the act eliminated the minimum social security benefit for both current and future beneficiaries. Under prior law, the minimum benefit was the lowest primary insurance amount provided in OASDI. Workers with earnings records which would result in a benefit amount lower than the minimum amount were given the minimum. For beneficiaries becoming eligible this year (in disability and survivor cases) and ultimately in all new cases, the amount of this benefit was set at $122 a month.

In December, the Congress acted to retain the minimum benefit for current beneficiaries. Had the Congress not amended the Omnibus Reconciliation Act, current and future beneficiaries would have had their social security benefits recalculated on the basis of their actual earnings, receiving a lower benefit in most cases.

In addition, had the act not been amended, a special SSI status would have been established for current minimum beneficiaries 60 to 64 years of age who were otherwise eligible for SSI. This special benefit was to be equal to the difference between the minimum benefit and the individual's recalculated benefit. The SSI benefit was not to be increased for the cost of living.

Current beneficiaries were to lose the minimum benefit in March 1982. No new beneficiaries were to become entitled to the minimum benefit after October 1981. Only the provisions affecting current beneficiaries were later amended. As a result of H.R. 4331, the elimination of the minimum benefit for new beneficiaries remains as it appeared in the Omnibus Budget Reconciliation Act of 1981, except that the effective date was delayed until January 1, 1982.

Had the minimum benefit been eliminated for current beneficiaries, according to GAO estimates, about 1.7 million of the 3 million minimum beneficiaries would have experienced little or no loss of income because they were dually entitled beneficiaries, currently receiving supplemental security income (SSI), or had regular benefits equal to the minimum. In addition, approximately 200,000 beneficiaries who would have become eligible for SSI benefits would have applied for and received them.

Of the 1.1 million beneficiaries who stood to lose income, 360,000 were estimated to be receiving pensions based on uncovered employment, and about 40,000 were assumed to have spouses with substantial earnings. Presumably, about 700,000 needy beneficiaries would have lost income as a result of this change. The average reduction in benefits was estimated to be $60 a month. This change would have reduced social security expenditures by $900 million in 1982 and by $1.4 billion in 1983.

Elimination of minimum benefits for future beneficiaries will reduce the benefit amount paid from OASDI an average of $45 a month for approximately 100,000 newly entitled beneficiaries in 1982. This change will reduce expenditures by 80 million in 1982 and $70 million in 1983.

B. STUDENT BENEFITS

Section 2210 of the act eliminated child's benefits in the case of children 18 to 22 years of age who were enrolled in post-secondary school. Under prior law, children of retired, disabled, or deceased workers who turned 18 were allowed to continue receiving child's benefits until they turned 22 as long as they were attending school.

As a result of the Omnibus Budget Reconciliation Act, no child beneficiaries will receive benefits after age 18 for post-secondary school (age 19 for elementary and secondary school) if they are not attending school before May 1982 and receiving benefits by August 1982. A student 18 and older who is entitled to a child's benefit by August 1981 and who begins post-secondary school before May 1982, will continue to receive benefits until July 1985 or until he turns 22 or discontinues his education, whichever happens first. However, for those who continue to receive the benefit:

—The amount of the benefit will not be adjusted for changes in the cost of living after August 1981.
—Beginning in September 1982, the amount of the benefit will be reduced each year by 25 percent of the August 1981 amounts; and
—No benefits will be payable to post-secondary students during the summer months (May through August).

As a result of these changes in student benefits, about 610,000 students who will attend post-secondary school in 1982 will either not receive student benefits or will receive reduced student benefits. In addition, 40,000 secondary students age 19 or older will lose their benefits. The average student benefit is now $250 a month. For those receiving benefits before August 1982, the average will be reduced by $63. In addition, no cost-of-living increases will be granted in the summer and no benefits will be paid during four summer months (an additional 33-percent reduction in annual income). The total average benefit loss in 1982 for students continuing to receive benefits will be about $1,700. Changes in the student benefit will reduce social security expenditures by $567 million in 1982. By 1986, the reduction in expenditures will be over $2 billion annually.

C. LUMP-SUM DEATH BENEFIT

Section 2202 of the act restricted payment of a lump-sum death benefit to either a spouse or a child eligible to receive monthly survivor's benefits. Under prior law, a one-time payment of $255 was made at the time of a worker's death to either a surviving spouse or some other person or institution. Frequently, the death benefit was paid to a funeral home to cover burial expenses. This provision in the Omnibus Budget Reconciliation Act eliminates the payment of the death benefit in cases where there is not an eligible surviving spouse or entitled child. This change is effective for deaths after August 1981.

It is estimated that 700,000 of the 1.4 million primary beneficiaries who die in 1982 will not have the one-time lump-sum payment of $255 made on their behalf. Savings to social security from this change will be $182 million in 1982.

D. MOTHER'S (FATHER'S) BENEFITS

Section 2205 of the act eliminates the payment of benefits to nonaged surviving spouses when the youngest child reaches age 16. Under prior law, the widowed parent of a surviving entitled child, or the young spouse of a disabled or retired worker with a dependent child was eligible to receive parent's benefits until the youngest child was 18. This provision in the act would limit payment of this benefit to a parent with a child under 16, effective October 1981 for new beneficiaries.

Present beneficiaries may continue to receive their parent's benefit until August 1983, unless their youngest child becomes 18 before that date. A parent caring for a disabled child aged 16 or older will continue to receive parent's benefits.

In 1982 and 1983, about 170,000 current beneficiaries will continue to receive parents' benefits, while about 20,000 widow(er)s and young spouses each year who would otherwise have received these benefits will not. Beginning in 1984, about 190,000 individuals who would otherwise have received these benefits in that year will no longer be eligible. The average widow(er)'s benefit is presently $277 a month and the average young spouses benefit is $125 a month. Savings for social security are expected to increase from $40 million in 1982 to $450 million by 1984.

E. FIRST BENEFIT PAYMENT

Section 2203 of the act restricts initial payment of benefits to the first full month in which the beneficiary meets all conditions of eligibility. Under prior law a beneficiary filing for benefits in the same month in which he or she became eligible could receive a monthly benefit for the enitre month, regardless of when in the month they became eligible. This provision requires beneficiaries who reach age 62 in the month of filing to wait a month before receiving benefits.

The delay in the effective date will eliminate a month of benefits for approximately 222,000 female beneficiaries and 193,000 male beneficiaries who are expected to retire at exact age 62 in 1982. The average initial benefit for females retiring at age 62 is $296 a month. The average initial benefit for males at this age is $444 a month. The total savings from this change are expected to be $205 million in 1982.

F. ROUNDING OF BENEFIT AMOUNTS

Section 2206 of the act specifies rounding benefit amounts down to the lower dime at each stage in computation, and down to the lower dollar for the final benefit amount which is paid to the beneficiary. This rounding is put into effect for all initial benefit computations, cost-of-living computations, and benefit recomputations for periods after August 1981.

The change in rounding of benefit amounts will result in an average reduction of $0.60 a month for every beneficiary of the social security program in 1982. The savings from this change are expected to be $140 million in 1982 and $270 million in 1983.

G. EARNINGS LIMITATION EXEMPT AGE

Section 2204 of the act extended the age of exemption from the earnings limitation, now 72. for 1 more year. Under prior law, social security beneficiaries 72 or older are able to earn an unlimited amount of income through work without any reduction in their social security benefits. This exempt age was to have been lowered from 72 to 70 in 1982. As a result of the 1981 provision, the exempt age will now remain at 72 throughout 1982, and will be lowered to 70 in 1983.

Maintaining the exempt age at 72 for 1 more year will eliminate payment of all or part of a year's social security benefits for about 200 000 workers age 70 and 71 with earnings over the exempt amount in 1982. The average amount of benefits not paid to each of these workers is estimated to be $2,500. Total savings are estimated to be $500 million.

H. DISABILITY

Three other provisions in the Omnibus Budget Reconciliation Act relating to OASDI affected disability benefits. These provisions placed a limit (the so-called megacap) on the total disability benefits a worker could receive from public sources, extended an offset applied to disability benefits for worker's compensation to disabled worker beneficiaries 62 to 64 years of age, and limited OASDI trust fund financing for State-provided vocational rehabilitation (VR) so that it is payable only for certain beneficiaries. It is estimated that about 13,000 disabled workers aged 62 to 64 and 4,000 new disabled workers a year will be affected by extension of the worker's compensation offset. Another 12,000 workers annually will be affected by retroactive application of the offset. Further, about 55,000 disabled workers will be affected by the megacap. In all, 80,000 workers and the dependents of these workers will be affected by the disability provisions in the Omnibus Budget Reconciliation Act of 1981. Total savings for the DI program from benefit changes in the calendar year 1982 are expected to be $49 million. In addition, the limitation in payments for vocational rehabilitation is expected to save $89 million in 1982.

A final feature of the act gives the Social Security Administration authority to recover the full cost of furnishing information to enable an employee benefit plan to comply with ERISA, or for any other purpose not directly related to the administration of social security programs.

3. SOCIAL SECURITY AMENDMENTS OF 1981 (PUBLIC LAW 97-123)

On the day the House and Senate approved the Omnibus Budget Reconciliation Act eliminating the minimum benefit, the House introduced and passed a bill to restore the minimum benefit for all current and future beneficiaries. This bill, H.R. 4331, passed the House by a vote of 404-20. It was referred to the Senate Finance Committee, and in October an amended version was reported to the Senate and passed by a vote of 95-0. The conference committee on H.R. 4331 met in November, and on December 15 and 16 the House and the Senate approved the conference report. The bill was signed into law on December 29.

The purpose of H.R. 4331 was to restore the minimum benefit in full for all those currently receiving it, and to produce some offsetting revenues or savings to assure that the total bill added little cost to the OASDI trust funds. In addition, the Congress included a provision in the bill to enable the OASI, DI, and HI trust funds to exchange funds among themselves as necessary to delay the depletion of OASDI trust funds otherwise expected to occur in late 1982. The major provisions of the bill were as follows:

A. MINIMUM BENEFIT

Section 103 of the bill restores the minimum Social Security benefit for all beneficiaries eligible to receive the benefit prior to January 1982. The minimum benefit is eliminated for all future beneficiaries eligible after December 1981 with the exception of members of religious orders who are under a vow of poverty and are eligible for benefits before January 1992.

B. COVERAGE OF SICK PAY

Section 104 of the bill removes the prior law exclusion of sick pay from social security payroll taxes in the first 6 months of the employees absence from work. Previously, sick pay was taxed only if the employer did not maintain a formal plan for paying wages and only for the first 6 months of the employees absence. As a result of this bill, all sick pay paid by an employer or by a third party (insurer), in the first 6 months of an illness will be taxed. Disability payments made to individuals after the first 6 months of illness will remain untaxed. Only workers compensation is excluded. This provision extends payroll tax coverage to compensation already taxed for income tax purposes. Included in this provision is a waiver of interest and penalties for late payment of taxes on sick pay during the first 6 months of 1982.

C. INTERFUND BORROWING

Section 102 of the bill authorizes interfund borrowing, with interest, between OASI, DI, and HI from January 1 to December 31, 1982. Borrowing is not to exceed the amount necessary to pay benefits through June 1983. Repayment is subject to the discretion of the managing trustee.

4. Effect on the Status of the OASDI Trust Funds

The provisions enacted in the Omnibus Reconciliation Act of 1981 were expected to produce savings for the OASDI trust funds during calendar years 1981–86 of $23.9 billion. The Social Security Amendments of 1981, as enacted, added a cost of $6.1 billion to the trust funds through 1986, and added revenues of $3.9 billion. The combined 5-year effect of all legislation in 1981 was a spending reduction of $17.8 billion and a revenue increase of $3.9 billion, resulting in an improvement of $21.7 billion in the condition of the trust funds as follows:

TABLE 5.—ESTIMATED NET CHANGE IN OASDI PAYMENTS, 1981-86, RESULTING FROM THE "OMNIBUS BUDGET RECONCILIATION ACT OF 1981," AND "THE SOCIAL SECURITY AMENDMENTS OF 1981," ON THE BASIS OF THE 1981 TRUSTEES' REPORT INTERMEDIATE II-B ASSUMPTIONS

[In millions]

OASDI provisions	Effective date	Calendar year— 1981	1982	1983	1984	1985	1986
Expenditure reduction:							
Eliminate minimum benefit for new beneficiaries	January 1982		$50	$95	$130	$170	$240
Eliminate lump-sum death benefits when there is no surviving spouse or surviving entitled child	September 1981	$15	182	188	190	192	193
Begin retired workers' and spouses' benefits with first full month of entitlement	September 1981	35	205	230	250	270	290
Retain retirement test exempt age 72 through 1982	January 1982		460	40			
Phase out mothers' and fathers' benefits when youngest child is aged 16 or over	September 1981	1	40	160	450	490	530
Round benefits to next lower dime at each intermediate step and to next lower dollar at final step	September 1981		140	270	320	370	420
Modify workmen's compensation offset provision	September 1981	9	49	82	119	164	210
Limit trust fund payments for vocational rehabilitation to cases of successful rehabilitation	October 1981	19	86	74	65	68	72
Phase out postsecondary students' benefits	May 1982		915	1,715	2,260	2,570	2,730
OASDI reduction subtotal, taking account of interaction		79	2,127	2,854	3,784	4,294	4,685
Revenue increases:							
Extend payroll tax to 1st 6 mo. of sickpay	January 1982		641	703	765	874	956
Net OASDI		79	2,768	3,557	4,549	5,168	5,641

In the long run, changes enacted in the Omnibus Budget Reconciliation Act and the Social Security Amendments are expected, under intermediate II–B assumptions, to reduce the 75-year average deficit in OASDI by 0.19 percent of taxable payroll.

5. COST-OF-LIVING ADJUSTMENTS

In the midst of the effort to reduce budget outlays for fiscal year 1982, the Senate turned its attention momentarily to the automatic annual cost-of-living adjustment (COLA) in the social security and supplemental security income (SSI) programs. From a budget perspective, social security is a massive entitlement program, not subject to congressional discretion through the appropriations process, and one which is expanding as a result of automatic annual COLA's. The seven automatic increases granted since automatic COLA's began have more than doubled program costs. The last 3 years of double-digit inflation have increased outlays by 40 percent. Under intermediate II–B assumptions, outlays are expected to double again by 1988. Those who focus their attention on the Federal budget see some revision of the COLA provisions as necessary in the near future.

One attempt in 1981 to revise the COLA provisions came as part of the effort by the Senate to set budget targets in the First Concurrent Budget Resolution. The Senate resolution included a budget target for income security programs which assumed enactment for all income security programs of a change in COLA's which would base the COLA on the lower of either the increase in a wage index, effective in 1981, and delay the payment of the cost-of-living increase by 3 months, effective in 1982. On the floor of the Senate, in May, an amendment which would have deleted this provision from the Senate budget resolution was defeated by a vote of 49 to 42. However, despite the favorable vote in the Senate, the cost-of-living proposal was later dropped in conference with the House.

Another effort to base savings on an assumption about a change in COLA provisions was made in the Senate Budget Committee when the Second Concurrent Budget Resolution was being considered in the fall. This time, however, the proposal was not approved by the Budget Committee.

A decision to change the method of computing the Consumer Price Index (CPI), used in calculating COLA's was announced in November by the Department of Labor. Under the announced plan, the CPI will be revised to replace the homeownership cost component with a rental equivalence measure of housing costs in an effort to reduce the sensitivity of the index to rising home mortgage interest rates. The CPI–U, which is largely used as an economic indicator, will be revised effective January 1, 1983. The CPI–W, which is largely used to adjust benefits in entitlement programs, will be revised effective January 1, 1985. At this time it is unclear what effect this change will have on social security and SSI benefits. The difference between the old and new CPI's will depend upon the trends in mortgage interest rates after 1985. In the long run, this change is not expected to have an effect on either social security benefits or on the financing of social security.

6. LEGISLATIVE PROPOSALS TO INCREASE REVENUES TO THE SOCIAL SECURITY TRUST FUNDS

With resistance mounting in the Congress to benefit reductions in social security, there was renewed interest in finding ways to increase revenues to the system without increasing the payroll tax rate or using general fund revenues. Three proposals which attracted attention were a proposal to improve the return on investments of the social security trust funds, a proposal to levy an excise tax on cigarettes to provide revenues to the trust funds, and a proposal to establish a reserve social security trust fund with revenues from the windfall profits tax levied on oil companies.

A. TRUST FUND INVESTMENT

Social security is a pay-as-you-go system, which means that the payroll tax revenues received are paid out almost immediately in benefit checks to beneficiaries. A small contingency reserve is maintained by the trust funds to insure the smooth flow of benefit checks during times of economic fluctuation. At the end of fiscal year 1981, assets of the four trust funds totaled about $48.6 billion, while expenditures from the four trust funds were being made at an annual rate of $190 billion. Further, reserve levels are projected to decline in future years relative to the projected rise in expenditures. In short, assets in the trust funds are relatively small. Nevertheless, interest income from these reserve funds amounted to $3.9 billion in fiscal year 1981 ($2.3 billion for OASDI and $1.6 billion for HI and SMI).

Current practice for investing the trust funds is as follows:

> The managing trustee (Secretary of the Treasury) has invested historically the great bulk of the trust fund (89 percent of September 1981 OASDHI assets) in "special issues", not available on the open market. The remainder of the fund monies are invested in marketable long-term Treasury bonds with maturities of at least seven years and in participation certificates in the Government National Mortgage Association with maturities of 15–20 years.
>
> As income flows into the funds from tax receipts or other sources, it is invested daily in very short-term special issues called "certificates of indebtedness," which are set to mature on the following June 30. These certificates bear the current special interest rate which is computed monthly on the basis of the special issue interest rate formula provided in the law. Currently, most of these certificates are redeemed before June 30 in order to meet benefit costs and other expenses. Because the law permits special issues to be redeemed before maturity at par value, the trust funds suffer no loss as a result of these premature redemptions.
>
> Any certificates of indebtedness which have not been cashed in by June 30 are redeemed at that time, with the proceeds reinvested (or "rolled over") in longer-term special issue bonds with maturities averaging about 7½ years. Any

> long term special issue bonds coming due that June 30 will also be rolled over into new special issue bonds. The Treasury attempts to set the maturity dates for special issue bonds from 1 to 15 years so that about 1/15 of these longer-term securities comes due each year. Although this is the goal, it is not achievable when special issue bonds not due to mature for a year or for several years must be cashed in early in order to meet current benefit costs, as has been the case in recent years for OASI and DI.
>
> When a trust fund needs cash for current purposes, Treasury redeems securities equal in value to the amount needed. The first securities redeemed are special issues (both certificates of indebtedness or bonds) due to mature on the following June 30. These are redeemed at par and in ascending order of interest rates. If additional funds are needed, special issue bonds due to mature one year later are redeemed, again at par and in ascending order of interest rates. Finally, after all special issues have been redeemed, Treasury would have to sell off its marketable obligations, taking a loss if necessary, since marketable securities cannot be reduced at par. In practice, Treasury has never had to sell marketable securities in order to meet trust fund expenses; marketable securities have been held until maturity. As marketable securities reach their maturity dates (not necessarily on June 30), the proceeds are rolled over into new marketable bonds or into special issue bonds, depending on the anticipated cash needs of the particular fund.[9]

The Annual Report of the Social Security Board of Trustees revealed that in the 12 months ending June 30, 1981, Social Security Trust Funds earned 8.3 percent from investments.

In 1981, Members of Congress raised the issue of whether Social Security Trust Funds would not be in a better financial state if reserves had been invested in ways that would have produced a higher yield. Five Members of Congress introduced bills that would require the social security trustees to invest trust fund balances in Government securities so as to secure the highest possible interest yield without endangering the trust funds. Citing the trustees report and the historical rate of return on social security investments, Senator Proxmire and others argued that the trust fund assets have been poorly managed. In particular, Senator Proxmire estimated that social security trust funds could have earned as much as $2 billion in additional revenues in 1980. Opponents argue that current investment rules and practices are fundamentally sound and will maximize returns to the trust funds over the long run. Others maintain that the managing trustee has pursued a reasonable investment policy, given existing statutory guidelines, but that a re-examination of those rules may be in order.

On July 29, 1981, Senator Proxmire introduced S. 1528, the Social Security Trust Fund Investment Reform Act of 1981, which has four major provisions:

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[9] U.S. House of Representatives, Committee on Ways and Means, Subcommittee on Social Security, "Social Security Trust Fund Investments: Policies and Practices," U.S. Government Printing Office, Washington, 1981

—Four new trustees would be added to the current three-member board of trustees (Secretaries of Treasury, Labor, and Health and Human Services). Three of the four new trustees would represent employers, employees, and beneficaries, respectively, and a fourth would be an expert investment manager.

—The board of trustees would be required to invest trust fund assets "so as to secure the maximum possible interest yield, commensurate with the safety of the funds."

—The interest rate on new special issues purchased by the trust funds would be based on the average market yield on all marketable U.S. Government securities which the funds are permitted to purchase under law, including both short- and long-term securities, and financial instruments of Government agencies issue Government backed or Government guaranteed securities.

—The Secretary of the Treasury would be required to modernize equipment and seek expert advice as needed in order to manage the trust fund portfolios so as to maximize interest income.

On October 23, 1981, Senator John Stennis introduced S. 1768, which essentially contains the second and third provisions of S. 1528. Three bills were introduced in the House (H.R. 4382, H.R. 4443, and H.R. 4472), which are virtually identical to S. 1528.

On October 16, 1981, the House Ways and Means Committee, Subcommittee on Social Security, held 1 day of hearings to consider social security trust fund investment policy, and heard testimony from the Social Security Administration and the Treasury Department.

Robert J. Myers, Deputy Commissioner of Social Security for Programs, summarized his testimony in the following manner:

> The present investment policies and procedures for the social security trust funds is proper and equitable to both these funds and to the General Fund of the Treasury. Likewise, both the insured persons under social security and the general taxpayers—who are, by and large, the same persons—are treated in a fair, equitable, and consistent manner.
>
> The rates of return obtained by the trust funds currently are reasonable in light of the past investment experience. The appropriate investment procedure is to choose one investment policy and remain with it, rather than attempting to do better by speculating through jumping back and forth among investment strategies.

Mark E. Stalnecker, Deputy Assistant Secretary of the Treasury, while generally supportive of the investment results in terms of the statutory formula, nonetheless identified three apparent "deficiencies" in the current formula:

> First, as discussed above, the requirement that the interest rate be based on yields on Treasury marketable issues with *4 or more years to maturity* prevents the Treasury from providing interest rates related to the specific maturities of the issues to the trust funds. Thus, when short-term rates are higher than long-term rates, as has generally been the case this year, the trust funds receive a lower rate of return than they would receive if the statute permitted Treasury to pay

interest rates related to the yields on Treasury marketable issues of comparable maturities.

Second, the requirement that the obligations issued to the funds bear interest at a rate equal to the average market yield at the *end of the month* preceding the date of issue subjects the earnings of the funds to erratic fluctuations which may occur on any 1 day in the market, because of market reactions to short-term economic or financial developments or other unsettling news events. A better approach would be to base the interest rate on an average over a period, which would provide a more equitable rate of return and would help assure more stability in the earnings of the funds.

Third, the requirement that the obligations issued to the funds bear interest rates equal to market yields on *all marketable interest-bearing obligations* of the United States of the prescribed maturities results in a somewhat lower rate of return to the funds than Treasury would be required to pay on new issues in the market. That is, under this statutory formula, Treasury must include in its rate computation the yields on many outstanding issues which were issued many years ago at market rates considerably below current market rates. Since such issues are thus traded at deep discounts in the current market, they are especially attractive to purchasers who benefit from the capital gains tax advantage of deep discount issues as well as to purchasers who gain special tax advantages from the so-called "flower bonds" which are redeemable at par for the payment of estate taxes. Consequently such issues are traded at relatively higher prices, and thus lower nominal yields, than would be required on Treasury new issues.

This inequity to the trust funds could be remedied by permitting the Secretary of the Treasury greater discretion to base his rate determinations on current market yields on selected outstanding issues which are reasonably reflective of Treasury's current borrowing costs.

Also, this administration is currently conducting a comprehensive review of the longstanding statutory requirements and administrative policies and practices governing investments of the social security funds and other trust funds, particularly those funds which are invested under similar statutory formulas. Upon completion of this review, the Treasury Department will consider appropriate recommendations to Congress to assure an equitable rate of return to the trust funds under changing market conditions.

The Social Security Subcommittee of the Senate Finance Committee also announced its intention to hold hearings on social security investment policy in early 1982.

B. EXCISE TAX ON CIGARETTES

Another proposal to increase revenues to the trust funds is S. 1610, a bill introduced by Senator Danforth and cosponsored by Senator Heinz, Chairman of the Special Committee on Aging. The bill would increase the present 8 cents excise tax by an additional 10 cents a pack, and earmark the additional revenues for the HI trust fund. It would generate an estimated $3 billion annually to be paid directly to the medicare HI trust fund.

In cosponsoring the bill, Senator Heinz pointed out:

> Recent projections by the Social Security Administration indicate that—if interfund borrowing is implemented or the payroll tax rates reallocated to help the OASI Trust Fund—by 1987, the Medicare fund may not have sufficient funds to pay hospital bills on time, and may even be depleted. Between now and 1987, the 10-cent-per-pack increase in the excise tax can raise $18 billion to help offset the projected deficit.

People who smoke one or more packs of cigarettes per day double their risk of developing catastrophic diseases such as cancer, emphysema, and heart disease. The cost to the medicare program for treating smoking-related illnesses was estimated to be more than $2.2 billion in 1980.

C. WINDFALL PROFIT TAX REVENUES

Senator Eagleton introduced legislation in 1981 to establish a reserve social security trust fund to be financed by revenues from the windfall profits tax levied on oil companies. Under the Eagleton bill, S. 1612, 25 percent of the revenues each year from the windfall profit tax would be earmarked for a social security reserve trust fund, to be used to help meet short term and emergency social security funding shortfalls. The aggregate amount appropriated for the reserve trust fund would be limited to $50 billion. A board of trustees would be created to manage the trust fund and report to Congress annually on the fund's condition. The Secretary of the Treasury would transfer such amounts as provided by appropriation from the reserve fund to the other social security trust funds, as needed.

In addition, Senator Eagleton offered his proposal as an amendment twice during the year—to the public debt limit increase bill on September 29, and to the social security reform bill (H.R. 4331) on October 15. The amendment, would have repealed the reduction in the windfall profit tax earlier enacted in the 1981 tax reduction bill, was defeated on both occasions.

E. SOCIAL SECURITY ISSUES IN THE FUTURE

Social Security financing remains, at the end of 1981, an unresolved problem. However, with a political stalemate in the Congress, the forum for debate on the financing issue is now likely to shift from the Congress to the National Commission on Social Security Reform until after the 1982 elections. Meanwhile, while this issue will remain dormant legislatively during the year, it will remain active as a focus of public and media attention until it is resolved. As a result, financing will continue to overshadow other pending issues on the social security agenda in the coming years.

1. National Commission on Social Security Reform

With the potential for passage of the administration's social security reform proposals blocked by partisan wrangling in the Congress, the President changed his strategy for resolving the social security financing problem. In September, he announced that he would appoint a task-force to work with the Congress in arriving at a bipartisan consensus so that the necessary reforms could be enacted.

On December 16, President Reagan announced the appointment of 15 members to the National Commission on Social Security Reform.[10] Five of these members were selected by the President, five by the Speaker of the House, and five by the Majority Leader of the Senate. Seven of those serving on the Commission are Members of Congress, including Senator John Heinz, chairman of the Senate Committee on Aging. The Commission is to be chaired by Alan Greenspan, Economic Adviser to the President, and former Chairman of the Council of Economic Advisers under President Ford.

In his executive order establishing the Commission, the President charged the Commission with:

—Reviewing relevant analyses of the current and long-term financial condition of the social security trust funds.

—Identifying problems that may threaten the long-term solvency of such funds.

—Analyzing potential solutions to such problems that will both assure the financial integrity of the Social Security System and the provision of appropriate benefits; and

—Provide appropriate recommendations to the Secretary of Health and Human Services, the President, and the Congress.

The Commission is to make its report to the President by December 31, 1982.

2. Social Security's Computer Problems

One issue which will continue to stimulate congressional interest in the coming months, however, is the problem of improving social security's ailing computer capability. Since 1974, the General Accounting Office (GAO) and various committees of the Congress have studied the weaknesses and inadequacies of the Social Security Administration's automatic data processing (ADP) system and have pressed for the development and implementation of a plan to redesign the system. A report released by the GAO in December summarized the current status of this problem as follows:

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[10] **President Reagan appointed five members: task force chairman Alan Greenspan, who was chairman of the Council of Economic Advisers under President Ford; Robert A. Beck, chairman of the board of Prudential Insurance Co. of America; Mary Falvey Fuller, vice president for finance of the Shaklee Corp.; Alexander B. Trowbridge, president of the National Association of Manufacturers; and Joe D. Waggonner Jr., former Democratic House Member from Louisiana and a consultant with Bossier Bank Trust Co. House Speaker Thomas P. O'Neill Jr., D-Mass., named five members; former social security commissioner Robert M. Ball; former Rep. Martha Keys, D-Kan.; Rep. Claude Pepper, D-Fla., chairman of the Select Committee on Aging; Rep. Bill Archer, R-Texas; and Rep. Barber B. Conable Jr., R-N.Y. Senate Majority Leader Howard H. Baker Jr., R-Tenn., appointed the final five: Senate Finance Committee chairman Robert Dole, R-Kan.; Sens. Daniel Patrick Moynihan, D-N.Y., William L. Armstrong, R-Colo., and John Heinz, R-Pa.; and AFL–CIO president Lane Kirkland.**

The Social Security Administration's (SSA's) automatic data processing (ADP) operations continue to be plagued by serious problems. SSA and the Department of Health and Human Services (HHS) agreed in May 1981 that inefficient computer software, inadequate hardware capacity, and systems personnel deficiencies have created an ADP systems crisis at the agency. GAO's work has confirmed major problems in these areas and has also noted continuing privacy protection and security deficiencies within SSA's ADP systems operations. These problems have combined to create an ADP environment in which SSA systems managers react to day-to-day crises rather than use planned approaches for solving ADP problems.[11]

During 1981 problems with social security's ADP operations and administration plans for resolving these problems were the subject of several hearings before the House Ways and Means Committee Subcommittee on Social Security, and the House Committee on Government Operations. The administration promised in these hearings that a 5-year plan to redesign the system will soon be forthcoming. The effort to resolve these problems will remain a high priority in 1982.

3. COST-OF-LIVING ADJUSTMENTS (COLA's)

Congressional budget committees and the administration are becoming increasingly concerned about the role of the automatic benefit indexing provisions in the expansion of the Federal budget. In the spring of 1981, the Senate briefly considered a change in the method for indexing income security benefits. Later in the year, the Department of Labor announced that it would change the method of calculating the Consumer Price Index (CPI) in an effort to slow down its rate of increase in the future.

Changes in COLA have also been widely discussed by those concerned with social security financing, independent of the problems in the budget. Among those who oppose providing new revenue sources for social security, COLA changes are seen as a way to buffer social security financing from economic fluctuation without changing the structure of benefits or targeting benefit cuts on subgroups of the elderly.

With growing budget deficits and, as yet, unresolved financing problems in social security, it is inevitable that changes in COLA will be considered repeatedly over the next few years.

4. WOMEN'S ISSUES[12]

Absent from the year's social security agenda, but not forgotten, are concerns about the adequacy of social security benefits to divorced and widowed spouses, and the equity of benefits for two-earner families. Retirement benefit adequacy for women is a most pressing concern because a very high proportion of the elderly poor are widowed, divorced, or never-married women. In 1976, older women living alone accounted for three out of every four aged units with subpoverty income.

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[11] U.S. General Accounting Office. "Solving Social Security's Computer Problems: Comprehensive Corrective Action Plan and Better Management Needed," report No. HRD-82-19, Dec. 10, 1981.

[12] Discussion based on Shelley Lapkoff "Working Women, Marriage and Retirement," "Coming of Age: Toward a National Retirement Income Policy," President's Commission on Pension Policy; appendix, chapter 42.

The problems of providing adequate benefits to women have existed, in part, because retirement income systems link benefits to an individuals' earnings and work history. Working women frequently have interrupted work histories due to childrearing responsibilities. Women have also generally had lower career earnings than men. As a result, a large proportion of women either fail to qualify for social security and employee pension benefits or they qualify for low benefits based on their own earnings.

Social security has addressed the problem of providing income to homemakers by paying dependent spouses benefits based on the earnings record of the principal earner, and by paying survivors benefits to young widows with children and widows over 60. Employee pensions however, do not pay spouses benefits and provide inadequate protection for survivors.

Despite the comparatively better protection afforded women under social security, than under private plans, there are nevertheless inadequacies in benefits for women which have become exacerbated by changes in family structures and the roles of women.

Increasing longevity of women compared to that of men has raised the average length of widowhood, exacerbating the economic hardships for women dependent on savings, insurance, or their husband's retirement benefits for income. Seven out of ten women reaching age 65 are or will become widows and, on average, live as widows for 18 years. Widows, who constitute two-thirds of all elderly poor units, are the largest group with inadequate benefits. While many widows receive an adequate benefit from social security, there are instances in which a widow's benefits can be particularly low. First, a widow whose spouse dies before her retirement receives benefits based on an earnings record which has been maintained at the standard of living at the time he died, rather than updated to the standard of living at the time of her retirement. If the period between his death and her retirement is lengthy, the relative value of the full retirement benefit can be quite low. In addition, if a widow chooses to begin drawing benefits at age 60—as most young widows do—the actual benefit received will only be 71.5 percent of the full benefit.

Survivors of retired two-earner couples often find it difficult to maintain their previous standard of living because their family benefits are reduced by half when their spouse dies. Survivors of retired one-earner couples, on the other hand, receive two-thirds of their previous family benefit.

The increasing rate of divorce is another trend transforming family structure and necessitating changes in social security. In the 1960's and 1970's, several changes were made in social security in response to the rising divorce rate—resulting in the availability of spouses benefits to divorced women whose marriages had lasted 10 or more years. However, the divorced wife is only entitled to the spouses benefit. This benefit, designed to supplement the primary benefit, is rarely adequate to maintain a separate household. In addition, there are problems of equity. For a marriage that lasted for less than half of the workers career, there is little reason for providing benefits based on the workers entire wage history. For a lifelong marriage, however, the one-third/two-thirds distribution of benefits conflicts with the concept of an equal partnership.

Questions of equity have also been raised with regard to women who work. Social security provides a lower total family benefit to two-earner couples than to one-earner couples with the same covered earnings.

Several proposals to improve the adequacy or equity of women's benefits have been advanced in recent years. The most prominent proposal is for earnings sharing between a husband and wife. Under this proposal, each partner in a marriage would receive credit for half of the sum of the couple's earnings during the marriage. Each individual would receive benefits based on their own earnings record—and the spouses benefit would be eliminated. This change would make social security similar to the treatment, in community property States, of other income and assets obtained during marriage. Pure earnings sharing would weaken survivors and disability benefits. As a result various proposals have suggested modification to the pure earning sharing approach to allow some inheritance of credits or benefits and to provide full credits in the event of disability.

Inheritance of credits is an approach intended to improve the benefits of widows. This approach would allow surviving spouses to inherit all or a portion of the earnings credit of their deceased spouses and add these to their own earnings credits. Survivors of lifelong marriages would benefit from the provision. However, survivors of short marriages could lose benefits because they would inherit credit only for the years of marriage.

Earnings sharing is one approach to improving benefit adequacy which would not necessarily add cost to the social security trust funds. Some of the proposals advanced would even produce both short-run and long-run savings to the trust funds.

Earnings sharing has become increasingly visible as a reform proposal. In 1981, the President's Commission on Pension Policy recommended that earnings sharing be used upon divorce and that surviving spouses be allowed to inherit their partner's earning record. In addition, H.R. 3207 introduced in the same year by Representative Pickle, included a provision for limited earnings sharing in the event of divorce. The potential for enacting earnings sharing without significantly increasing the social security costs makes this approach a likely candidate for review by the National Commission on Social Security Reform.

Another widely discussed proposal for improving women's benefits is the "double-decker" plan. This approach would set up a two-tiered system. The first tier would be a flat dollar benefit or "demogrant" paid to everyone 65 and over or disabled regardless of earnings. The second tier would be a strictly earnings-related benefit. This approach would split a couple's earnings 50/50 upon divorce and enable a surviving spouse to inherit part of the partner's earnings.

The strong relationships between pensions, women, and the elderly poor makes some modification in social security to improve women's benefits a high priority in the coming years.

Chapter 4

EMPLOYEE PENSIONS

OVERVIEW

This year interest mounted in Congress to find the means to encourage growth in private pensions. Identical bills were introduced in the House (H.R. 4330) and in the Senate (S. 1541) called the Retirement Income Incentives and Administrative Simplification Act of 1981. These bills are intended to spur private pension development—especially among small businesses—by loosening the so-called fiduciary standards under ERISA (The Employee Retirement Income Security Act of 1974), cutting back on the reporting obligations of pension plans, and lessening "administrative burdens." Further hearings on the Senate bill are scheduled by the Labor Subcommittee of Senate Labor and Human Resources Committee in early 1982.

The President's Commission on Pension Policy recommended a different approach to expanding coverage of the work force under private pensions. However, their concept of a mandatory universal pension system (MUPS) received little support from policymakers.

The focus in public employee pensions in 1981 was on cost reduction. Changes made in the Federal Civil Service Retirement System, in military retirement and in Federal benefits for Railroad Retirement, as a part of the Omnibus Reconciliation Act of 1981, were aimed at trimming Government costs for current beneficiaries. The changes enacted in 1981 appear to be only the beginning of an effort by the administration to contain the costs of federally supported pension programs.

A. HISTORICAL DEVELOPMENT

While the earliest pension plans were offered toward the end of the 19th century, private and public pension plans have only become a significant factor in the provision of retirement income in the last 30 years. The early development of private pensions was spurred primarily by the desire of employers to improve labor stability and productivity. Pensions were variously viewed as a way of encouraging loyalty and long service, as a means of reducing worker turnover, and, coupled with mandatory retirement, as a way of humanely removing superannuated employees. Federal tax laws added a further incentive to employers by allowing them to exempt contributions to pension plans from corporate income taxes. Employers establishing pension plans were frequently supported by unions, who saw the pension plans as a moral obligation of the employer to compensate workers for depreciation over a career of employment.

Civil service pensions were also initiated in the 19th century, beginning with the development of State and local government plans for firemen, policemen, and teachers. It was not, however, until the 1920's that public pensions began to increase in prevalence and coverage. Mounting concern about government efficiency and the problem of superannuated Federal employees led to the establishment of the Federal Civil Service Retirement System in 1920. Pension plans for State and local government employees also became more popular in the 1920's. However, major expansion in public employee pensions did not come about until the 1940's and 1950's. At the Federal level this trend was a result of the burgeoning Federal work force during and after World War II. At the State and local level, professionalization of government employees, a desire to avoid social security coverage of government employees, and an increasing awareness of retirement income needs contributed to the growth of public employee pension coverage.

The development of private pension plans, which had been slow in the 1920's and 1930's, also began to increase rapidly in the 1940's and 1950's. This sudden increase was the result of three factors. First, tax sheltering of corporate and personal income became more important when personal and corporate tax rates were raised precipitously in 1940. Congress, responding to these heightened tax incentives, tightened the requirements for qualification of a plan and improved the tax advantages for qualified plans in the Revenue Act of 1942. Under the terms of this act, qualified plans could realize three tax advantages: (1) Tax deductibility of employer contributions; (2) tax deferral of plan investment income; and (3) tax deferral of employer contributions until pension benefits were received in retirement. These added advantages provided tremendous incentives for the expansion of qualified pension plans.

A second factor was that firms were forced, as a result of wage freezes during World War II and the Korean War, to provide compensation increases to workers in the form of benefits instead of cash wages.

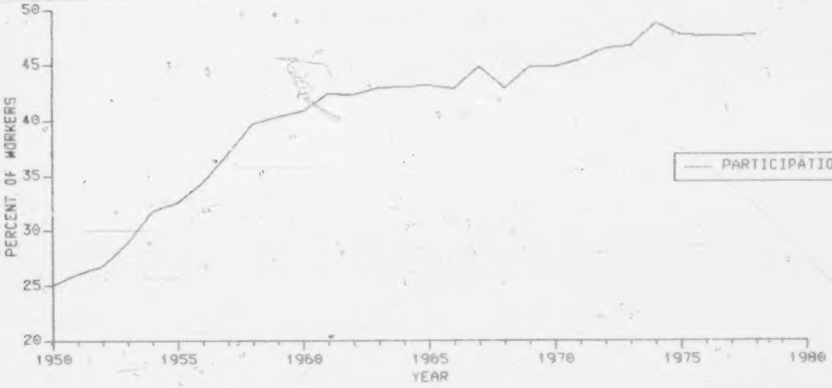
A third factor was that labor unions became increasingly interested in the 1940's in including pension benefits in negotiations for compensation. Union interest in pension benefits stemmed from the settlement of the mineworkers strike in 1946 which included the establishment of the mineworkers pension fund. Union interest was further spurred by the 1949 Supreme Court decision in the *Inland Steel* case, which upheld the National Labor Relations Board's decision that pension and welfare benefits were a proper subject for collective bargaining. Increasing recognition by unions that social security benefits were inadequate, coupled with the finding by the Steel Industry Factfinding Committee in 1949 that the steel industry had a social obligation to provide pensions to workers, further fueled the pursuit of pension benefits through labor negotiation. By 1950, nearly all major unions had successfully negotiated pension plans.

The change in incentives for the formation of private pension plans after 1940 produced a rapid expansion in both the number of pension plans and the proportion of the private wage and salary labor force covered by pensions. In the first 20 years after 1940, the growth in pension coverage was particularly rapid due to the immediate development of pensions plans by the largest employers. As the number of qualified pension profit-sharing and stock bonus plans increased from 700 to 64,000,[1] the proportion of workers covered by private pensions increased from 12 percent to about 33 percent.[2]

In the second 20-year period, the expansion of coverage slowed considerably due to a trend toward coverage of workers in smaller firms. While pension coverage had increased at an average annual rate of 12 percent in the 1940's and 7 percent in the 1950's, between 1960 and 1974, pension coverage grew at a rate of only 3 percent a year. Overall, the proportion of covered workers increased from 33 percent to only 40 percent.[3]

CHART 10

PERCENT OF PRIVATE, NON-AGRICULTURAL, WAGE AND SALARY WORKERS PARTICIPATING IN PENSION PLANS 1950-1979



Source: Sylvester J. Schieber and Patricia M. George. Retirement Income Opportunities in an Aging America: Coverage and Benefit Entitlement, Employee Benefit Research Institute, Washington, D.C. 1981. Table III-1.

During this same period, however, the number of qualified plans in effect increased dramatically from 64,000 to nearly 425,000. By the early seventies, although there was an average net increase of 50,000 new plans a year, the rate of worker participation in plans was leveling off.[4]

B. CHARACTERISTICS OF PRIVATE PENSIONS

Today, there are more than 42 million private sector wage and salary workers actively participating in one or more of over 450,000 private pension plans.[5] These pension plans are of two types—defined benefit, and defined contribution plans. Defined benefit plans, which account for about 30 percent of all plans and 70 percent of all participants, are plans which pay the worker a specified benefit frequently based on a combination of his years of service, and recent earnings experience. Defined contribution plans, which account for about 70 percent of all plans and only 30 percent of all participants, are plans in which the rate of contribution is specified, and benefits are unpredictable—since they are tied to the rate of return on the plan's investments.[6]

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[1] Charles Spencer & Associates, "Pension and Profit-Sharing Plans in Effect, Based on IRS Data, 1939–75." EBPR research reports.

[2] James H. Schulz, "The Economics of Aging," 2d edition (Belmont, Calif.: Wadsworth), 1980, table 23.

[3] Ibid., page 126, and table 23.

[4] Op. cit. (Spencer).

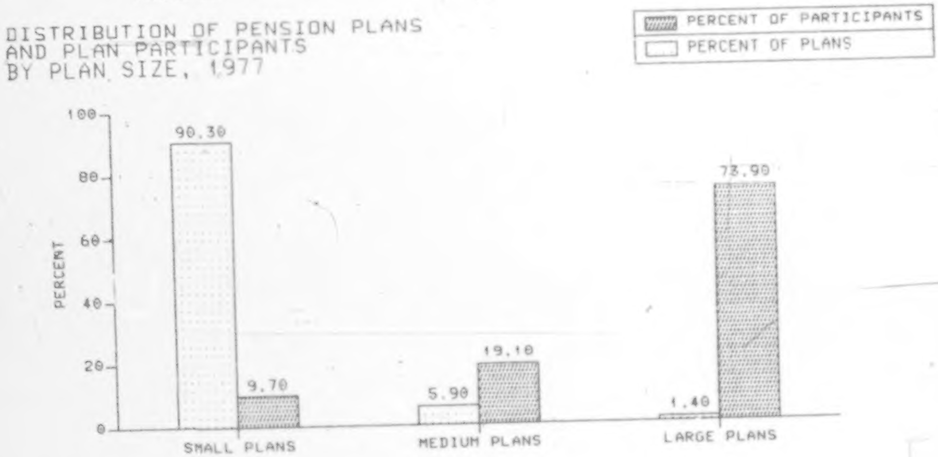
[5] U.S. Department of Labor, "Preliminary Estimates of Participant and Financial Characteristics of Private Pension Plans, 1977," 1981, page 1.

The majority of pension plans are small. As of 1977, three out of five plans had fewer than 10 participants, and 90 percent of all plans had fewer than 100 participants. Most of the small plans are defined contribution plans. Defined benefit plans tend to be larger, with 95 percent of all workers participating in defined benefit plans covered by plans with 100 or more members. While two-thirds of all private pension plans are small, defined contribution plans, two-thirds of all participating workers are in large defined benefit plans.[7]

Defined benefit plans pay either a flat-rate benefit or an earnings-related benefit. Flat-rate plans, also called pattern plans, cover about half of all participants in defined benefit plans, primarily employees paid hourly wages in collectively bargained plans. These plans pay a fixed dollar amount to the participant for each year of service under the plan. Three-quarters of the participants in flat-rate plans are in plans which use a single flat rate for all employees regardless of their job classification or wage. Another quarter are in plans using staggered flat rates which pay different dollar amounts for different job classifications.

Earnings-related plans, also called "conventional plans," usually cover salaried employees or a combination of salary and wage employees, and pay benefits in proportion to the worker's earnings. Usually the benefit is derived by multiplying a percentage of the em-

CHART 11



DISTRIBUTION OF PENSION PLANS AND PLAN PARTICIPANTS BY PLAN SIZE, 1977

Source: U.S. Department of Labor, Pension and Welfare Benefit Programs. Preliminary Estimates of Participant and Financial Characteristics of Private Pension Plans, 1977. (1981) Tables 1 and 2.

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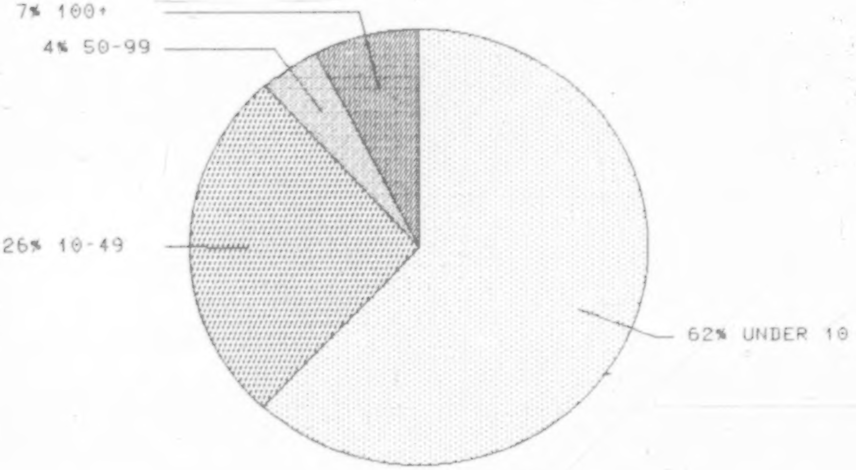
[6] Ibid., pages 1 through 3.

[7] Ibid., page 2.

CHART 12

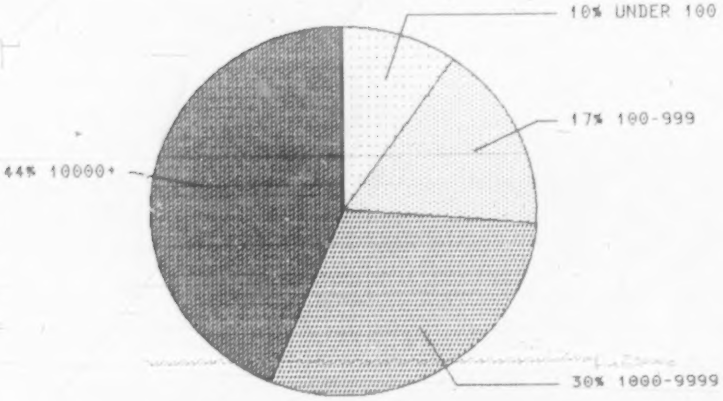
DISTRIBUTION OF PRIVATE PENSION PLANS
BY NUMBER OF PARTICIPANTS IN PLAN
1977



Source: U.S. Department of Labor, Pension and Welfare Benefit Programs. *Preliminary Estimates of Participant and Financial Characteristics of Private Pension Plans, 1977*. (1981) Table 1.

CHART 13

DISTRIBUTION OF PARTICIPANTS IN PRIVATE PENSION PLANS
BY SIZE OF PLAN
1977



Source: U.S. Department of Labor, Pension and Welfare Benefit Programs. *Preliminary Estimates of Participant and Financial Characteristics of Private Pension Plans, 1977*. (1981) Table 2.

ployee's average earnings over some specified period by his years of service under the plan. The earnings which are averaged in calculating the benefit may be the worker's career earnings under the plan, but are often the worker's highest 3 or 5 years of earnings, or the worker's earnings in his final 5 or 10 years of employment. The aim of an earnings-related plan is to pay the worker some fixed proportion of preretirement earnings to assure that pension benefits bear a set relationship to employees' standards of living, regardless of what happens in the economy. In general, final earnings and high years' earnings formulas pay initial benefits which have a more direct relationship to the employees' final preretirement standard of living than do the benefits paid under career average formulas.

These features make the defined benefit plan advantageous to a worker who remains with a single employer throughout his career. However, workers who participate in defined benefit plans and change employers during their careers have their benefits reduced or eliminated as a result. One reason is that most participants in defined benefit plans have to work for the same employer for 10 years to become vested for pension benefits. A worker who leaves early not only loses his right to benefits, but also is unlikely to have made any contributions to the plan which he could otherwise withdraw. A worker who stays with the same employer for more than 10 years, but leaves that employer several years before retiring, will find upon retirement, that the purchasing power of his fixed dollar pension has been eroded by inflation. These features of defined benefit plans tend to penalize mobile workers.

Employers can offer defined benefit plans as a way of rewarding loyal employees and reducing their labor turnover. In addition, the benefit formula can be set to influence employees decisions about work and retirement. However; there are disadvantages for the employer as well. Employers who offer defined benefit plans are obligated to provide the benefits they have promised. If their assumptions about future plan performance prove to be optimistic, employers may find it necessary to increase their contributions to finance the benefits. In this sense, the employers' pension costs are uncertain, and deterioration in the economy can lead to the build up of large unfunded pension liabilities.

Defined contribution plans include money-purchase and profit-sharing plans. In money-purchase plans, a periodic contribution of a specified percentage of earnings is set aside in an individual employee account. In profit-sharing plans, the periodic contributions to each account are a function of the profits of the firm and may vary each year. In both cases benefits are paid out based on the funds which have accumulated in the individual account at the time of retirement. In 1974, 70 percent of all participants in defined contribution plans were in money-purchase plans.[8]

Defined contribution plans cannot offer the worker predictable benefits, since the benefits paid depend upon the performance of investments. Individual employees may find upon retirement that the benefits paid are less than or greater than the benefits projected by the plan. In this sense, the employee, and not the employer, bears the risk. Defined contribution plans, however, have the advantage of not extracting as heavy a penalty for job mobility. Defined contribution plans are likely to allow the employee to gradually vest in his pension benefits, and are also likely to include employee contributions. Thus, even workers who leave before fully vesting can take some benefits with them. In addition, since the employee has an account which is invested, there is continuing growth in the value of his benefits even after he leaves the employer. As a result, benefits paid by defined contribution plans tend to be less sensitive than benefits paid by defined benefit plans to employee's job changes.

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[8] Bradley R. Schiller and Donald C. Snyder. "Linkages Between Private Pensions and Social Security Reform." U.S. Senate. Special Committee on Aging, committee print (97th Congress, 2d session). Not in print at the time of the publication of this report.

By the same token, defined contributions are difficult for an employer to use in rewarding career workers or influencing the work and retirement choices of employees. However, the advantage to the employer of offering a defined contribution plan is that his liability is limited to the periodic contributions he makes to the plan. Once these contributions are made, the employer has no further financial obligation.

It is important to realize that, in practice, the choice of a defined benefit or a defined contribution plan is not mutually exclusive. Major employers who include defined benefit plans in their benefit package often supplement those benefits with defined contribution plans which may be specifically targeted to attract highly skilled workers with relatively short tenures. They are also a way of increasing benefits without increasing the employer's future liability.

Another way of looking at pension plans is to differentiate between plans sponsored by a single employer and those sponsored by a group of employers or employers and labor organizations. Single employer plans are the most common, covering about 85 percent of all participating workers. In these plans, the employer sponsors and either administers or contracts for the administration of the plan separately. Multiemployer plans usually cover employees in an industry or craft in a specified geographic area. These plans require employers to make specified contributions on behalf of each worker to a central fund. Employees can continue to accumulate years of service under the plan by working for any of the employers in the plan. While the contribution rate is determined through collective bargaining, benefits are defined by the plan's trustees who are representatives of labor and management. Multiemployer plans offer workers better portability of their pensions than single employer plans because years of service continue to be credited to the workers account as he moves from one participating employer to another. However, benefit guarantees in multiemployer plans may not be as sound. While benefits are fully protected if a particular employer leaves the plan, if the plan terminates, workers benefits are only partially protected by plan termination insurance. Multiemployer plans can also be a problem for the employer. The defined benefits promised by the plan leave employers liable for future benefit obligations, as in single employer defined benefit plans, but in multiemployer plans employers share control over benefit levels with the labor union. In addition, termination of plan participation by one employer can increase the future benefit obligations of other employers participating in the multiemployer plan.

C. THE EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974

1. ORIGINS [9]

Prior to 1974, private pension growth had taken place in largely unregulated environments. Early restrictions on private plans were developed primarily through the Internal Revenue Code, and were aimed at preventing employers from developing plans only for the tax advantages and diverting plan assets and income to their exclusive use. The Revenue Act of 1942 provided special tax advantages for qualified plans and required, as a condition for qualification, that plans not discriminate in their coverage, benefits, and financing in favor of supervisors, highly paid employees, officers, and shareholders. Regulations and rulings of the IRS over the next 12 years added further detail to the requirements for plan qualification to protect general employee interests and prevent misuse of pension plans as tax shelters. Revision of the Internal Revenue Code in 1954 left these requirements in place. Prior to 1974, however, there were no provisions in the code to require adequate funding of pension plans, to guarantee pension benefits, to enforce individual participants' rights to benefits, or to establish standards for plan administration and management of plan assets.

During the 1950's, as private pensions assumed rapidly increasing responsibility for providing retirement income, concern began to mount about pension plan abuses. Complaints surfaced about losses of benefits by employees after long years of service because of company mergers, plant closings, employer bankruptcies, and unemployment. Stringent age and service requirements prevented many loyal workers from receiving pension benefits when they voluntarily or involuntarily retired before the plan's eligibility age. In addition, there was growing evidence of fraud, embezzlement, and mismanagement in the investment of pension funds.

In response to these problems, Congress moved to increase protection of the rights of individual participants and reduce plan asset mismanagement by enacting the Welfare and Pension Plans Disclosure Act of 1958. This act however placed primary responsibility for monitoring of plan activity in the hands of plan participants themselves. Plan administrators were required to make copies of the plan and annual reports available to plan participants. Participants were expected to spot fraudulent or criminal activity through the annual report, and bring action under State or Federal laws to protect plan assets. Even though the burden for investigation and enforcement was shifted from plan participants to the Departments of Justice and Labor in the 1962 amendments to the act, the law continued to provide inadequate protection for the rights of individual participants.

Continuing pension plan abuses led to the establishment of the President's Committee on Corporate Pension Funds which released its report in 1965. In its report, the committee recommended that Federal standards be imposed on private pension plans. In particular, the committee recommended the development of mandatory minimum vesting and funding standards, and concluded that a pension plan termination insurance program, and a mechanism for portability of pension benefits were worthy of serious study. The release of this report led to the introduction of the Pension Benefit Security Act to Congress in 1968. This bill and other pension reform bills were introduced in successive sessions of Congress until finally the Employee Retirement Income Security Act (ERISA) was enacted in 1974.

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[9] This discussion of the origins of ERISA is based on Dan N. McGill, "Fundamentals of Private Pensions," fourth edition (Homewood, Ill.: Richard D. Irwin, Inc.), 1979, pages 30–37.

2. MAJOR PROVISIONS

ERISA is one of the most lengthy and complex pieces of legislation to be enacted in recent years. The primary intent of this act is to protect the pension and welfare benefit rights of workers and their beneficiaries. It addresses this goal through eight sets of provisions:

(a) *Participation provisions:* These provisions limit the age and service requirements for eligibility for participation in a pension plan. In general, an employee cannot be excluded from a plan on account of age and service if he is at least 25 years old and has at least 1 year of service (a period of 12 months with at least 1,000 hours of work).

(b) *Vesting, break in service, and benefit accrual provisions:* These provisions assure that employees who work for the same firm for a reasonable length of time receive some pension at retirement age.

(1) Vesting: There are three alternative standards for vesting: (i) Full vesting of 100 percent of accrued benefits after 10 years of service; (ii) graded vesting of 25 percent of accrued benefits after 5 years of service increasing by 5 percent each year for the next 5 years and 10 percent for each year thereafter, so that 100 percent vesting is attained after 15 years of covered service; (iii) graded vesting of 50 percent of accrued benefits when age and service add up to 45 years, increasing by 10 percent each year over the next 5 years.

(2) Break in service: Requires a plan to credit an employee for all service with an employer before and after a "break in service." The plan may require a specified waiting period before prebreak and postbreak service are aggregated, but must later give credit for that period. Nonvested employees may not lose credits for prebreak service until the period of absence equals the years of covered service.

(3) Benefit accrual: Establishes a standard of uniformity in rates of benefit accrual to prevent plans from accruing benefits at lower rates in early years of employment or younger ages.

(4) Portability: With the consent of employers, employees may transfer vested pension benefits tax free to an IRA and another employer upon separation from the firm.

(c) *Joint and survivor provisions:* This provision improves benefits for spouses, by requiring pension plans to offer certain workers the option of electing a 50-percent joint and survivor annuity at the initial age for early retirement or 10 years before normal retirement—in exchange for a lower pension amount. All workers must be provided this protection at the time of actual retirement unless they elect otherwise.

(d) *Funding provisions:* These provisions set standards for the funding of plans to assure that plans have the money to pay benefits when due. Plans created after ERISA were to develop full funding for benefit obligations within 30 years. Plans predating ERISA were allowed 40 years to develop full funding.

(e) *Fiduciary provisions:* These provisions set standards for the administration and management of plan funds. Plans are required to diversify their assets, and they may not buy or sell, exchange, or lease property with a "party-in-interest." They may not divert plan assets or income to any other use than payment of benefits or reasonable plan administration expenses.

(f) *Reporting and disclosure provisions:* These provisions are designed to assure that employees and their beneficiaries know their rights and obligations under the plans, and to assure that Government agencies have the necessary information to enforce the law. Plans with over 100 participants are required to file detailed financial and actuarial data. Moreover, defined benefit plans must submit an audited financial statement and a certified actuarial statement. Plans with fewer than 100 participants are only required to file a simplified financial and actuarial report. All plans are required to furnish each participant and beneficiary with copies of the summary plan description and annual reports. Other statements are required when firms merge or transfer assets for a qualified plan, terminate a qualified plan, or when an employee with vested benefits terminates from a plan.

(g) *Plan termination insurance provisions:* These provisions assure that persons with vested benefits will receive a pension in the event that their defined benefit pension plan terminates with insufficient funds to pay benefits. Plan termination insurance is established through annual premiums paid by employers to a nonprofit Government corporation—the Pension Benefit Guaranty Corporation (PBGC). Single employer and multiemployer plans are treated differently under these provisions. In the original act, plan termination insurance was extended only to single employer plans. If a single employer, defined benefit plan terminates with insufficient funds, employees may qualify for a benefit of up to $1.261 a month (1981) (adjusted annually for changes in social security contributions and benefit levels). Employers terminating plans are liable for up to 30 percent of their net worth. Multiemployer plans were brought under the plan termination provisions in 1980. Under the 1980 amendments, the PBGC is required to provide financial assistance to a multiemployer plan when it becomes insolvent to enable it to pay guaranteed benefits, whether or not it terminates. Only a portion of the vested benefit in a multiemployer plan is guaranteed. In the event of insolvency or termination, the PBGC will guarantee 100 percent of the first $5 plus 75 percent of the next $15 of monthly benefits per year of service. Annual PBGC premiums for each participant are set at a higher rate for multiemployer plans than for single employer plans.

(h) *Individual retirement accounts and Keogh provisions:* ERISA provisions enabled employees not covered by a pension plan to take an annual tax deduction for contributions to an individual retirement account (IRA). ERISA set maximum IRA contribution levels at the lesser of 15 percent of compensation or $1,500 a year, and raised maximum Keogh contribution levels to the lesser of 15 percent of compensation or $7,500 a year. The Economic Recovery Tax Act of 1981 extended IRA eligibility to earners who are also covered by a pension, and raised maximum IRA and Keogh contribution levels. Under current law, individuals may contribute the lesser of 100 percent of compensation or $2,000 a year to an IRA, and the lesser of 15 percent of compensation or $15,000 a year to a Keogh plan.

(i) *Administration:* Administration for various provisions of the law was assigned either to the Department of Labor, the Internal Revenue Service, or the Pension Benefit Guaranty Corporation.

While ERISA dramatically increased the protection afforded for workers' pension benefits, it carefully limited its protections to workers who fulfilled conditions for ~~participation and vesting as~~ specified in the act. ERISA did not attempt to guarantee a pension to every worker, nor to assure that pension benefits that are received are adequate. In addition, ERISA did not attempt to provide full protection to spouses of deceased or retired workers, and it did not provide for portability of benefits other than in cases when plan sponsors chose to incorporate this option.

3. EFFECTS OF ERISA ON PRIVATE PENSION PLANS

Since the enactment of ERISA, there has been concern and controversy regarding the impact of this law on the development of pension plans, and on the nature of plan provisions. As ERISA brought into play a new set of plan standards and reporting and disclosure requirements in the pension industry, it was inevitable there would be disruption for private pension plans and added plan expenses. In retrospect, however, there is some question about how severe and long lasting this disruption has been, and whether it has had any lasting impact on the extent of pension coverage.

ERISA's most dramatic effects have been on the numbers of existing pension plans. When the law was passed, most pension plans were able to modify plan provisions and management procedures to meet standards and reporting requirements without serious disruption or excessive costs. However, many plans, particularly smaller plans, were unwilling or unable to meet the standards or the costs imposed by ERISA. In most cases these plans terminated. One interpretation of the impact of ERISA is that it weeded out the marginal pension plans—the very type of plan which led to the enactment of ERISA.

Defined benefit plans were the most directly affected, and here the numbers are startling. Prior to the enactment of ERISA the number of defined benefit plans had been rising from a low of about 5,000 net new plans a year in 1960, to a high of about 32,000 net new plans a year in 1973. In the years immediately following the enactment of ERISA, terminations of defined benefit plans tripled and creations of defined benefit plans were reduced by more than 80 percent. In 1976, there was actually a net loss of 4,000 defined benefit plans. After 1976, the number of defined benefit plans began to increase again, but by 1980, the number of annual net new plans was still only half that for 1973.[10]

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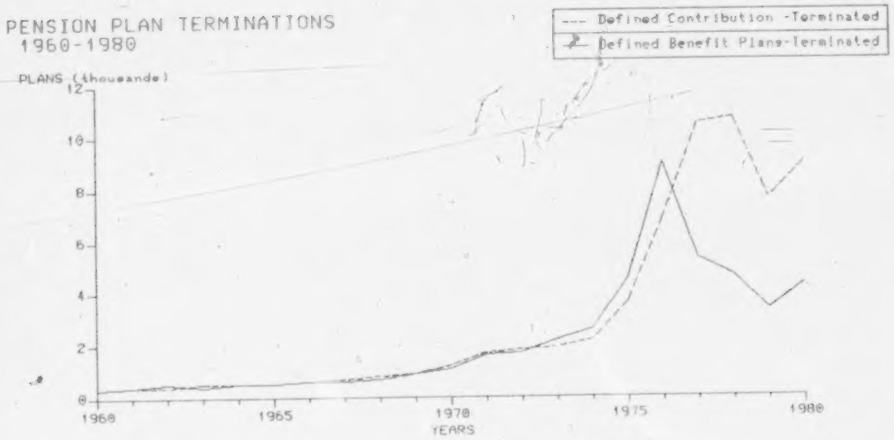
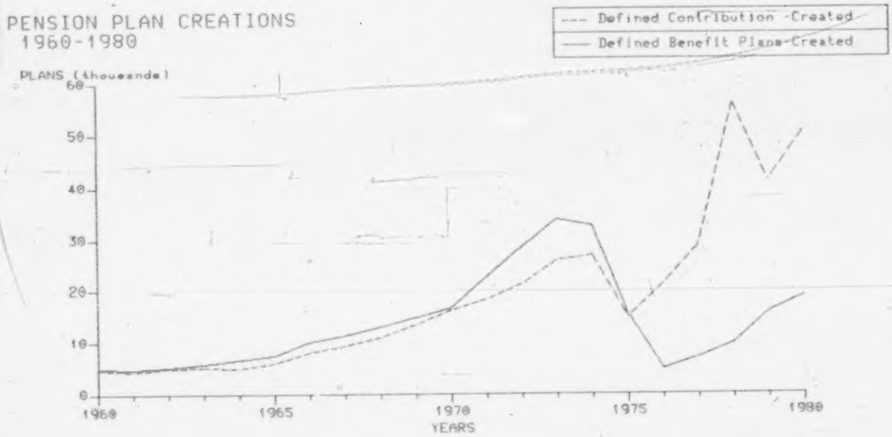
[10] Sylvester J. Schieber and Patricia M. George, "Retirement Income Opportunities in an Aging America: Coverage and Benefit Entitlement," Employee Benefit Research Institute, Washington, D.C., 1981, table III-9.

TABLE 14



Source: Sylvester J. Schieber and Patricia M. George. Retirement Income Opportunities in an Aging America: Coverage and Benefit Entitlement, Employee Benefit Research Institute, Washington, D.C. 1981. Table III-9.

TABLE 15



Source: Sylvester J. Schieber and Patricia M. George. Retirement Income Opportunities in an Aging America: Coverage and Benefit Entitlement Employee Benefit Research Institute, Washington, D.C. 1981. Table III-9

Defined contribution plans were also affected by ERISA, but only briefly. In the years immediately following the enactment of ERISA, the rate of defined contribution plan terminations rose dramatically, tripling by 1977. Plan creations, however, declined only in 1975 and 1976.[11] Overall, the enactment of ERISA has encouraged the development of defined contribution plans since these plans are not required to pay premiums to the Pension Benefit Guaranty Corporation nor to meet ERISA's funding standards. Since 1978, defined contribution plans have been created at double their pre-ERISA rate.

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[11] Ibid., table III-9.

Not all of the post-ERISA increase in plan terminations resulted from the enactment of the law. In part, the increase was a continuation of a long-term trend of rising termination rates. Annual plan terminations rose gradually from under 300 in the 1950's to more than 2,000 by 1970, accelerating thereafter to reach nearly 5,000 by 1974.[12] A continuation of this trend, however, would only account for half of the actual post-ERISA plan terminations. Part of the increase in plan terminations could also be attributed to the occurrence in 1974 and 1975 of the most serious economic recession since World War II. It is unclear, then, how much of an impact ERISA actually had on plan terminations.

Several studies of terminating pension plans have helped to clarify the relationship between the enactment of ERISA and the increase in plan terminations. In general, these studies found the effects of ERISA to be much less severe than the previously cited statistics would indicate. Terminating plans were found to be largely small plans that did not meet the act's minimum vesting and participation standards. While ERISA may have been a major factor in many of the plan terminations, it was not the most significant factor. In many cases, the sponsor terminated one plan only to place its participants in another plan. Where participants were not transferred to another plan, in most cases they either received or were scheduled to receive all of their vested benefits.

Specifically, studies by the Pension Benefit Guaranty Corporation (PBGC) of plan terminations in 1975 and 1978, found that terminating plans were overwhelmingly small plans, with over half covering fewer than 10 participants.[13] Similarly, a GAO study of plan terminations from the end of 1974 through June 1976, found that the average single employer defined benefit plan terminating after ERISA had 15 participants, and over 90 percent of these plans had fewer than 100 participants. [14]

In reviewing the reasons for plan termination, the studies concurred that, although ERISA changes were a major reason for plan termination, they were not the most frequently cited reasons. PBGC found in its 1975 study that only 23 percent of the plan sponsors terminating pension plans cited ERISA as a major reason for termination. Seventy-seven percent of the plan sponsors cited adverse economic circumstances, a change in ownership, or liquidation of the business as major factors. [15] GAO found in its 1978 study that more than half of the plan sponsors cited ERISA as a major reason, but only 17 percent cited ERISA as the only reason. GAO noted that adverse business conditions, rising pension costs, and other problems with the plans themselves were more significant factors. In a later study (1979) of pension plans with fewer than 100 participants, GAO found that ERISA was only a major factor in about 41 percent of plan terminations. For those plans citing ERISA as a major factor for plan termination, most were concerned about anticipated administrative and benefit costs and reporting and disclosure requirements. In addition, GAO found that 95 percent of the terminating plans did not meet the vesting and participation requirements of ERISA.[16]

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[12] Ibid., table III-9.

[13] Pension Benefit Guaranty Corporation, "Analysis of Single Employer Defined Benefit Plan Terminations, 1975" (March 1976). Pension Benefit Guaranty Corporation, "Annual Report" (June 30, 1975). Pension Benefit Guaranty Corporation, "Analysis of Single Employer Defined Benefit Plan Terminations, 1978" (May 1981).

[14] U.S. General Accounting Office "Effect of the Employee Retirement Income Security Act on the Termination of Single Employer Defined Benefit Pension Plans" (Report No. HRD 78-90, Apr. 27, 1978).

[15] Op. cit. (PBGC, March 1976).

Both the PBGC and GAO found that in many cases where plans were terminated, the employer continued pension coverage for participants in another plan. PBGC found in 1975, that 35 percent of all plan sponsors were continuing pension coverage through another plan, but by 1978, this proportion had dropped to 15 percent. The GAO found in its 1978 study that 41 percent of plan sponsors would continue coverage in some other plan. Further, GAO found that among the terminating pension plans studied, only 2 percent did not have sufficient assets to pay guaranteed vested benefits. In the majority of cases where vested benefits were paid by the pension plan, participants were provided a lump sum payment of their benefits upon termination of the plan.

While ERISA may have had some impact on the development of pension plans in the short term, much of this impact resulted in a shift in emphasis in plan creations from defined benefit plans to defined contribution plans. It is clear from 1980 IRS figures that the overall growth rate for private pension plans has returned to pre-ERISA levels. In addition, while growth in pension plans was slowed by ERISA, the limitation of this impact to small plans has meant that pension coverage of the work force has remained unchanged since ERISA. In short, there is no strong evidence that ERISA is having a lasting effect on the growth in private pension plans or on pension coverage of the work force. The pension industry appears now to have adjusted successfully to the new law.

The impact of ERISA on standards for participation and vesting has generally been mixed. Among smaller plans, the adoption of ERISA standards largely improved the adequacy and availability of pension benefits for covered workers. GAO found in its 1979 study of small plans, that 89 percent of the plans that continued, had to be revised to meet the act's requirements. This resulted in 410,000 additional employees becoming participants in small pension plans and about 197,000 participants having increased vested rights to pension benefits.[17] Among larger plans the results were more mixed. Participation requirements, which had before ERISA been loosening, actually became more restrictive as a result of ERISA. According to the 1980 Bankers Trust Co. "Corporate Pension Plan Study," a prior trend toward elimination of participation requirements was reversed after passage of the ERISA minimum standard for eligibility. Among flat-rate or pattern plans, the proportion with eligibility requirements rose from 16 to 54 percent between 1975 and 1980. Among earnings-related or conventional plans, the proportion with eligibility requirements rose from 56 to 65 percent over the 5-year period. Vesting requirements, however, were already moving toward a less retrictive 10-year, 100-percent vesting standard before ERISA was passed. The enactment of ERISA served merely to reinforce this trend.[18]

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[16] U.S. General Accounting Office, "Effects of the Employee Retirement Income Security Act on Pension Plans With Fewer Than 100 Participants" (Report No. HRD-79-56, Apr. 16, 1979).

[17] Ibid.

[18] Bankers Trust Co. "Corporate Pension Plan Study: A Guide for the 1980's" (New York: Bankers Trust, 1981).

4. MODIFICATIONS IN ERISA

A. MULTIEMPLOYER PLANS

The most significant changes in ERISA have occurred in the area of multiemployer pension plans. These are plans which cover employees of a number of employers usually within a single craft or industry, such as trucking, construction, retail foods, or printing. The plans are created and maintained under collective bargaining agreements negotiated between a union and employers. Frequently, employers' contribution rates are determined in the collective bargaining process, but benefits paid to pensioners are defined separately by the plan's trustees. Plans are not permitted to defer funding or reduce benefits, leaving contributing employers with choice of making sufficient contributions to meet benefit obligations or withdrawing from the plan.

In recent years, many industries with multiemployer plans have been experiencing declining employment and high rates of business failure. As a result, the funding obligations for remaining employers has been increasing substantially in some plans. When ERISA was passed in 1974, it was feared that inclusion of multiemployer plans in the plan termination insurance guarantees would enable ailing plans to immediately shift their pension burden to the Pension Benefit Guaranty Corporation (PBGC). A later PBGC study raised concern that automatic inclusion of multiemployer plans in the provisions of title IV of the act could result in the PBGC having to fund as much as $4 billion in benefits if multiemployer plans failed[19] Although multiemployer plans were required to pay premiums from the start, insurance of benefits was delayed under the act until January 1978. In the interim, ERISA gave the Pension Benefit Guaranty Corporation (PBGC) discretion to cover terminations on a case-by-case basis. This was intended to allow the PBGC to gain some experience with multiemployer plans before termination insurance coverage became mandatory. Mandatory coverage of benefits was then postponed several more times, until it finally became effective in August 1980.

In the meantime, studies conducted by the PBGC of multiemployer plan liabilities and terminations began to document unique problems of funding and liability among multiemployer pension plans. Under the original law, employers were able to withdraw from a multiemployer plan without any further obligations to the plan. If employees had earned vested benefits which had not been funded by the employer, that liability was spread among the remaining employers. In industries with a declining number of employers, these increased pension liabilities raised costs for remaining employers. In addition, where plans had given past service credits to employees for service before the employer entered the plan, failures or withdrawals of a large number of these employers left plans with large unfunded liabilities. Where increases in employer contributions or cuts in employee benefits were intolerable, termination of the entire plan became a likely alternative.

PBGC found that there were financial incentives for employers to withdraw from plans or for plans to terminate when there were large unfunded liabilities. Under the law, withdrawing employers had limited liability. If the employer withdrew and the multiemployer plan continued to operate for 5 years, the employer could dump its entire liability for its employees' benefits on the plan. If the plan folded within 5 years, the employer could be liable for up to 30 percent of his net worth, but in some cases this amount was less than the employer's obligation under the plan.

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[19] Pension Benefit Guaranty Corporation, "Potential Multiemployer Plan Liabilities Under Title IV of ERISA," Sept. 29, 1977.

(i) *Multiemployer Pension Plan Amendments Act of 1980*

As the date for implementing plan termination insurance coverage of multiemployer plan benefits drew nearer, it became clear that the incentives for employer withdrawal and plan termination needed to be reduced, and the funding of the PBGC improved.

PBGC had reported in 1977, that 1 in 10 multiemployer pension plans had a high potential for plan termination because of extreme financial hardship.[20] The PBGC's 1977 report had also called for an increase in the multiemployer premium rate to assure adequate reserves in the plan termination insurance fund when mandatory guarantees for multiemployer plans went into effect. In 1979, PBGC submitted specific recommendations to Congress for revising the multiemployer plan termination insurance provisions. These recommendations became the basis for the Multiemployer Pension Plan Amendments Act of 1980 (Public Law 96-364) which was signed into law in September 1980.

The 1980 amendments sought to remove incentives for withdrawal, and protect remaining contributors, by requiring that an employer withdrawing from a multiemployer plan continue to fund his fair share of the plan's total unfunded vested liability. The withdrawal liability is payable in annual installments for a period of up to 20 years.

In addition, the 1980 amendments made changes in the pension benefit insurance program to bolster ailing multiemployer plans. First, the definition of an "insurable event" was changed from plan termination to plan insolvency. Thus, the PBGC was required to provide financial assistance to insolvent multiemployer plans to enable the plans to pay benefits. Second, employers in certain financially troubled plans were protected from large increases in contributions. These plans, termed "plans in reorganization" were required to meet a minimum contribution requirement (MCR) which generally increased their funding obligations. The MCR is phased in to prevent an excessive increase in 1 year, and is reduced if the plan is "overburdened" with a high proportion of retirees. Third, trustees of financially troubled multiemployer plans were permitted to reduce or eliminate benefit increases that had been in effect for less than 5 years.

Finally, the 1980 amendments attempted to insulate the PBGC from the cost of excessive multiemployer terminations by raising the annual per participant premium paid by multiemployer plans and specifying a limited benefit guarantee level for these plans. Retirees or those participants within 3 years of retirement were assured full guarantee of their pension benefits. For others, the PBGC guaranteed 100 percent of the first $5 of monthly benefits per year of service, plus 75 percent of the next $15 of monthly benefits per year of service.

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[20] Ibid.

(*ii*) *S. 1748—Multiemployer Pension Plan Stabilization Act of 1981*

The 1980 amendments met with almost immediate opposition from employers contributing to multiemployer pension plans. Most of this opposition focused on the withdrawal liability provision in the act which held employers totally liable for their share of benefit obligations under the plan. Employers objected, stating that since they agree only to contributions they make to the plan and not to benefit levels, they should not be liable for the plan's benefit obligations. Because benefit levels are beyond the control of the employer, it was often possible for large unfunded liabilities to develop on an employer's account in the multiemployer plan amounting to a substantial portion of the employer's net worth. In addition, because the liability under the act was triggered by the employer's withdrawal from the plan, rather than the termination of the plan, companies might be prevented from selling or even in some cases moving their business. Employers maintain that a withdrawal liability which can equal or exceed net worth also reduces the ability of the employer to borrow money and, therefore, increases the likelihood of employer insolvency and withdrawal.

A bill to eliminate employer liability upon withdrawal and plan termination for most multiemployer plans was introduced in the Senate in October 1981 (S. 1748). This bill would remove from the withdrawal and plan termination provisions of title IV of ERISA plans in which only contribution levels, and not defined benefit levels, are negotiated in collective bargaining agreements. This is accomplished in the bill by redefining such plans as "fixed contribution multiemployer plans" instead of defined benefit plans. Employers in fixed contribution plans would be liable only for their agreed upon contributions. The plans themselves would have to pay no premiums to the PBGC to insure benefits, nor would plan benefits be guaranteed. Employers who have negotiated benefit levels in their collective bargaining agreement would continue to be covered by the provisions of title IV of ERISA.

B. SIMPLIFICATION AND REVISION OF ERISA

The complexity of ERISA and the extensiveness of the regulatory control it imposes have led to several efforts to clarify the act, consolidate administration, simplify reporting and disclosure procedures, and loosen restrictions on plan sponsors.

(*i*) *Reorganization Plan No. 4* (*1978*)

Initial problems of overlapping jurisdictions between the Departments of Treasury and Labor and the PBGC led to complaints of redundant and excessive paperwork, backlogs of unprocessed applications for administrative exemptions from prohibited transactions, and delays in the issuance of regulations. In 1978, in response to these complaints, President Carter issued reorganization plan No. 4 which eliminated much of the jurisdictional overlap resulting from ERISA. The plan assigned responsibility for each major provision of ERISA to one agency. As a result, there was a substantial reduction in the paperwork burden, processing of applications for exemptions was improved, and cooperative agreements between Labor and Treasury were begun to improve coordination of the field activities of these agencies.

(*ii*) *S. 1541—The Retirement Income Incentives and Administration Simplification Act of 1981*

Legislation was introduced in 1979—the ERISA Improvements Act of 1979—which was intended to simplify and clarify ERISA and certain tax code provisions, and to consolidate administration and enforcement of ERISA. This legislation was reviewed in several committee hearings and reported favorably from the Senate Committee on Labor and Human Resources, but never called up on the floor.

Representative Erlenborn, who had introduced the ERISA simplification bill in the House in 1979, introduced a similar bill in July 1981, known as the Retirement Income Incentives and Administrative Simplification Act (H.R. 4330), later introduced in the Senate as S. 1541, by Senator Nickles. This bill is intended to consolidate and simplify the laws and administration relating to employee benefit plans, and provide incentives for expansion of coverage and benefits under private pension plans and increased retirement savings.

There are six titles in the bill:

—Title I would create a single independent agency (an Employee Benefit Administration), to consolidate Federal regulation of employee benefit plans.

—Title II would permit employees in employer-sponsored retirement plans to make tax deductible contributions to the plan and to IRA's. (A similar provision was enacted in the Economic Recovery Tax Act of 1981.)

—Title III would amend the reporting and disclosure, participation, vesting, funding, and fiduciary requirements of ERISA.

—Title IV would amend the Internal Revenue Code with respect to the changes in ERISA and to increase contribution limits for Keogh plans. (Similar changes in Keogh plans were enacted in the Economic Recovery Tax Act of 1981.)

—Title V would require employers to provide payroll deduction plans for employees not covered by a private pension plan who want to contribute to an individual retirement account.

—Title VI would restructure single employer plan termination insurance.

Many of the changes in ERISA included in title III of this bill are intended to reduce the burden on employers, particularly small businesses, imposed by compliance with ERISA, in order to increase the incentives for plan development. Several of ERISA's reporting and disclosure requirements would be revised to reduce employer costs. For example, employers, who are now required to provide the summary annual report of the plan's status individually to all participants, would be allowed to provide the report collectively and make it available to individuals upon request. Another provision would allow larger plans than under current rules to use simplified annual reporting. In addition, the fiduciary restrictions in ERISA which prohibited certain kinds of plan transactions would be loosened to eliminate perceived barriers to plan expansion and increase employer incentives for plan development. For example, defined contribution plans would be permitted to loan or lease up to 50 percent of the plans assets to the employer; and plans would be allowed to buy, sell, exchange, or lease property with a "party-in-interest" (e.g., the employer) provided they received "adequate consideration" (a fair market price or reasonable rate of return).

Other changes to ERISA are aimed at restricting the participation and vesting standards for beneficiaries. Presumably these changes would also lower plan costs by reducing benefit payments. For example, the bill would stiffen the rules for suspension of a retiree's benefits upon reemployment by expanding the conditions of reemployment which can lead to suspension of benefits and permitting the plan to impose financial penalties on the beneficiary for failure to report reemployment. The bill would also allow employers to begin calculating employment for the purpose of determining plan eligibility from the beginning of the plan year rather than each individual employee's first day of work, thereby reducing administrative costs and reducing benefit accruals. Additionally, multiemployer plans would be allowed to curtail an employee's benefit accruals if his employer was delinquent in making contributions to the plan.

There are also provisions in the bill which would affect benefits paid to plan beneficiaries in ways that are not yet clear. For example, current pension integration rules would be replaced with a "mimimum combined-benefit rule" as a test of discrimination in the plan and a "benefit-compensation ratio" which would establish a minimum return on contributions for lower compensated participants. Another provision would exempt plans which offer lump sum death benefits to survivors from the requirement that they offer a preretirement survivor annuity option.

Finally, proposed changes in the plan termination insurance program are aimed at encouraging plan continuation and containing program costs by placing single employer termination insurance on a comparable basis with multiemployer insurance. Provisions would both limit the event which triggers payment of termination insurance and change the employer's liability in the event insurance was paid. Currently, employers can continue in business but arbitrarily terminate a pension plan and limit their liability to the plan to 30 percent of their net worth. This bill would make employer insolvency the insurable event and require that the employer be insolvent and liquidate, or partially liquidate, his business to trigger PBGC benefit guarantees. PBGC would be allowed to insure only part of a plan in the event of partial liquidation. The employer's liability would be equal to the difference between the current value of benefit obligations and the current value of plan assets; the PBGC however, would no longer have preferred creditor status in making a claim on the employer's assets. These provisions would also stiffen minimum funding standards and minimum contribution requirements for plan sponsors.

The complexity of this legislation and of ERISA necessitate a careful and deliberate review of its provisions and implications. To date, the bill has been referred in the Senate to the Committee on Labor and Human Resources, where it was the subject of 3 days of hearings in November 1981, with a fourth hearing on January 26, 1982.

C. REGULATORY ACTION

(i) *Suspension of Benefit Rules*

ERISA generally requires pension plans to provide that participants' benefits become vested, or nonforfeitable, within certain periods of time. There is an exception to this general vesting rule of ERISA, which allows pension plans, under specified circumstances, to suspend the payment of pension benefits to a retiree if the retiree engages in certain kinds of work. For a single employer plan, benefits may be suspended only if the retiree is reemployed by the employer under whose plan the benefits are being paid. In the case of a multiemployer plan, suspension is permitted when the employee is reemployed in the same industry, in the same trade or craft, and in the same geographic area covered by the plan.

In 1981, the Department of Labor published final regulations specifying the conditions under which a retiree would be considered "employed," for suspension of benefits purposes. It also set limits on the amount of the benefit payments which may be suspended. According to this final regulation, benefits could not be suspended if a retiree works fewer than 40 hours during a month, and benefits could not be suspended during months when the retiree is not employed.

The so-called "final" regulations, which were published on January 27, 1981, and which were due to become effective on May 27, 1981, were deferred on a monthly basis by the Department of Labor from May 26, 1981.

After the Department of Labor had deferred the implementation of these regulations for the third time, Senator John Heinz, chairman of the Special Committee on Aging, wrote a letter to Secretary Raymond J. Donovan on August 7, 1981, urging him to "put an end to the Department's long record of procrastination in this area, to take an incremental step that will improve the opportunities for older Americans, and to approve the final regulation in question." In taking this position, Senator Heinz cited demographic forecasts of America's growing elderly population. "It is my strong belief," he wrote, "that this Nation must embark on a comprehensive approach to the issue of older workers, lifting barriers currently keeping healthy and willing older Americans out of the labor force, and crafting new policies that will provide incentives for continued employment of older workers." In particular, Heinz was concerned with promoting continued employment of Americans in their sixties. On August 25, 1981, Senator Pete V. Domenici, also a member of the Special Committee on Aging, wrote to Secretary Donovan joining Chairman John Heinz' request on behalf of the Special Committee on Aging. "As the economic realities of our times bear down more heavily on the aged population," Domenici wrote, "I strongly feel that we should be encouraging rather than discouraging older workers who have the desire to work."

In reply to Senator Heinz' letter, Donald E. Shasteen, Deputy Under Secretary for Legislation and Intergovernmental Affairs, explained that the Department of Labor had delayed the rules in August 1981, because it wished to make certain technical amendments which would make it easier for pension plans to comply with the new rules. But Shasteen also stated, "that the basic thrust of the rule—to permit retirees to continue working part time without penalty—is sound and consistent with the President's policies."

On October 29, in testimony before the Special Committee on Aging, Under Secretary of Labor Malcolm Lovell testified that, after making certain technical revisions to the "suspension of benefits rules," the revised suspension of benefits regulations would be made effective January 1, 1982. These revised regulations would allow the retiree to work up to 40 hours per month without suffering a loss of benefits, and benefits could only be suspended for months in which the retiree worked 40 hours or more. The regulation applies to work beyond the plan's normal retirement age, which is usually age 65. It does not prohibit suspension of benefits to early retirees, as long as full, actuarial benefits are payable when the early retiree attains the normal retirement age.

In response to a clarification requested by Senator Heinz as to the application of the new suspension of benefit rules with respect to early retirees, Labor Secretary Raymond J. Donovan explained that the rules are not mandatory for those who retire before the plan's normal retirement age.

In its regulatory impact analysis, the Department of Labor estimated that as many as 40,000 to 66,000 people age 65 and over might return to work on a part-time basis as a result of the new rules, potentially earning as much as $330 million a year to supplement retirement income and adding to the productivity of the country as a whole.

(*ii*) *Pension Fund Investment*

On December 3, 1981, President Reagan also announced that the Department of Labor would take immediate action to permit construction-oriented, multiemployer pension plans—with approximately $20 billion in assets—to invest their funds in residential mortgages. These actions are being undertaken under the Employee Retirement Income Security Act (ERISA) of 1974. The Department of Labor had been considering changes in these regulations for some time, and the new ability to invest in residential mortgages is being granted with "appropriate safeguards," President Reagan said, "to protect the participants and beneficiaries of pension plans which invest in housing * * *."

Although the immediate change only affects construction-oriented pension plans, the President also said he is asking the Department of Labor to "move as expeditiously as possible to complete the drafting of regulations designed to provide even greater freedom for all pension funds to invest additional moneys in housing, if they choose to do so." The change in the regulations grants a class exemption, under the prohibited transactions section of ERISA, which exempts transactions in which an employee benefit plan issues a commitment to provide mortgage financing to purchases of residential construction and the provision of loans pursuant to such commitments.

D. CURRENT ISSUES IN PRIVATE PENSIONS

1. FINDINGS OF THE PRESIDENT'S COMMISSION ON PENSION POLICY

On February 26, 1981, the President's Commission on Pension Policy issued its final report on retirement income problems and policy recommendations, entitled "Coming of Age: Toward a National Retirement Income Policy." A major set of the Commission's recommendations dealt with strengthening employee pensions. In its final report and technical appendixes, the Commission presented a comprehensive review of the characteristics and problems of employee pensions and pension income. The Commission emphasized the disparity between expectations that private pensions should become the major private source of retirement income in the future and the reality that relatively few retirees today receive pension income.

> In spite of the importance of employee pension programs to the economic security of the retired, only a relatively small proportion of retired actually receive income from employee pensions. In 1978, about one-fourth of the retired population age 65 and over received employee pension income. This reflects the fact that many workers either work for employers who do not have pension plans or leave employment before gaining entitlement to pension benefits.

The Commission focused particularly on problems with pension coverage, inadequacy of pension benefits, lack of coordination with other income programs, erosion of benefits due to inflation, and gaps in pension protection for women.

A. COVERAGE

The President's Commission paid particular attention to the problems of workers who are not covered by private pension plans.

> The most serious problem facing our retirement system today is the lack of pension coverage among private sector workers. Only about 45 percent of the private sector work force participates in an employee pension plan, although it is likely that a number of those not covered may eventually be covered.

A portion of those workers not covered by a pension plan have labor force participation patterns that make it difficult to establish pension coverage. Controversy over the Pension Commission's estimates of pension coverage revolved around this question of what kinds of workers should be expected to be covered by a pension. ERISA's minimum standard for eligibility specifies workers 25 years of age or older, employed by a firm for a year, and working at least 1,000 hours in 12 months. Even when the population that should be covered was reduced to the minimum ERISA standard, only 70 percent of these workers were found to be participating in a pension plan. And the prospects that this gap in coverage might be closed in the near future were found to be poor.

Although the creation of new pension plans has continued at a high rate during the 1970's, pension coverage of the work force has slowed to a virtual standstill. Pension coverage in firms with more than 1,000 employees is nearly complete. The bulk of the noncovered population is now employed in small firms. Nearly four out of every five noncovered workers are employed in firms with fewer than 100 employees.

Small employers have difficulty including pension benefits in the compensation package because they are most likely to have little margin for increased labor expenses, to have a labor force that turns over more frequently, and to have, on average, a short lifespan. Defined contribution plans, IRA's, and other vehicles which limit employer liability can help meet the needs of this work force. But adequate pension coverage in small businesses is likely to remain a problem in the near future.

In addition, industries where pension coverage has grown most rapidly are industries which are expected to employ a declining share of the labor force in the future. The industries which now account for the largest proportion of noncovered workers will grow.

Forecasts of future pension coverage, however, have been the subject of considerable controversy. The President's Commission used assumptions of restrained growth in pension plans, and it concluded that pension coverage and vesting would not increase significantly in the future under current policies. Others have criticized the no-growth assumptions of the President's Commission, and using moderate growth assumptions, have forecast that coverage and vesting will continue to increase in the future. Today only two-fifths of all families with a member between 65 and 68 years of age receive any income from employer pensions. However, under moderate growth assumptions this proportion could double by the turn of the century.

B. VESTING AND PORTABILITY

Even if a worker participates in a pension plan, there are no guarantees that he or she will ever receive retirement benefits from that plan. Barriers to the receipt of benefits result from restrictive vesting requirements and obstacles to the portability of accrued pension benefits or service credits.

Most plan participants today (89 percent) are covered by plans which have "cliff" vesting—with no partial vesting in the first 10 years and full vesting after 10 years.[21] Workers who change jobs frequently stand to lose all rights to pension benefits because of a failure to vest fully in any pension plan. While the minimum ERISA vesting standard adopted by most plans is 10 years of service, the average worker over 25 years of age changes jobs every 6 years, if male, and every 3.7 years if female.

Even if the mobile worker successfully vests in his or her pension plan, the adequacy of future benefits from the plan can be severely reduced if the worker leaves the firm in midcareer. Benefits provided under defined benefit plans are usually left behind when the worker changes employers. The worker's benefits, which are often paid on the basis of his 3 or 5 highest years of earnings, decline in real value once years of service are no longer credited to the plan. As a result, workers who change jobs during their careers, even though they may receive pension benefits from multiple sources, are frequently penalized for mobility.

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[21] U.S. Department of Labor, Bureau of Labor Statistics, "Employee Benefits in Industry, 1980," Bulletin No. 2107, September 1981, table 33.

Even with moderate growth in pension coverage in the future, problems of vesting and portability are expected to restrict any improvement in the adequacy of initial pension benefits. A recent study by ICF, Inc., indicates that despite a projected doubling in the proportion of families eligible to receive pension benefits after the turn of the century, the average benefit received is not projected to increase significantly in real terms.[22]

C. INFLATION PROTECTION

Even when pension benefits are adequate at the time of retirement, they quickly decline in real value once the worker retires. Automatic cost-of-living adjustments (COLA's) are generally absent from private sector plans. A recently completed survey by Hay Associates shows that only about 8 percent of the participants in private sector plans are covered by provisions granting full COLA's. A more common practice among private plan sponsors is to make ad hoc increases of retiree's annuities. These increases are generally less than the full CPI, averaging about 3 percent per year. (Most workers, however, are covered by social security and would receive full COLA's to these benefits).

With no inflation protection, a 10-percent rate of inflation cuts the purchasing power of a retirement benefit in half in only 7 years. A Labor Department study determined that even with ad hoc inflation adjustments, the real value of private pension benefits decreased at an average rate of 4 to 8 percent a year in the early 1970's.[23]

The fact that roughly 30 to 40 percent of the income of the elderly is not inflation-proof underscores the fragile position of this group and helps explain the rising rate of poverty among the elderly.

D. GAPS IN PENSION PROTECTION FOR WOMEN

The President's Commission emphasized two areas where women particularly experience problems in gaining adequate pension protection. First, women in the work force typically have lower rates of coverage than men.

> Many women are employed in low-wage industries and in occupations with little or no employee pension coverage. Even when they have jobs covered by a plan, their interrupted work patterns make it difficult for them to gain entitlement to pension benefits. Few receive service credits for the years in which they work less than 1,000 hours.

Second, women who are spouses of covered workers experience gaps in pension protection when widowed or divorced.

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[22] Op. cit. (Schieber), pages 24 to 26.

[23] Robert L. Horst, Jr. and Donald E. Wise, "Private Pension Benefits and the Rate of Inflation," Mathtech, Inc., May 4, 1979.

Employee pensions are often terminated upon the death of the worker, leaving the surviving spouse unprotected. Moreover, retiring workers may choose a form of benefit that provides no protection for survivors. And, under current law, the right to a pension can evaporate if the worker dies before retirement.

These problems are most severe for the homemaker who subsequently divorces. While homemakers themselves may accumulate little retirement income, they share in the retirement income earned by the spouses. This is not the case for divorced homemakers. In many instances, they have accumulated little or no retirement income during their years of marriage, and sufficient pension credits cannot be built up before retirement.

E. RECOMMENDATIONS OF THE PRESIDENT'S COMMISSION

The major recommendation of the President's Commission on Pension Policy was to establish a mandatory universal pension system (MUPS) for all workers. The MUPS would be funded by employer contributions which would, at a minimum, equal 3 percent of payroll. All employees meeting ERISA standards for eligibility (i.e., age 25, and 1 year of service) would be participants with immediate vesting of benefits. All current pension plans not meeting the MUPS minimum standard would have to be supplemented to meet these standards. The MUPS benefit would be supplemental to social security benefits, and would be portable. A special portability clearinghouse would be established to maintain benefit records. In addition, employers could elect to send their contributions to a central MUPS portability fund which would invest the funds. Costs to employers would be offset by a 46-percent tax credit on contributions up to 3 percent of payroll.

In addition, the Commission recommended pension plans exceeding the MUPS minimum voluntarily shorten vesting periods from the ERISA standard of 100 percent vesting in 10 years. Portability should be encouraged by supporting greater use of IRA's for rolling over accrued pension benefits.

The Commission further recommended making postretirement joint and survivor benefits mandatory unless waived by both spouses, providing automatic preretirement survivor coverage in certain circumstances, and divisible pension entitlement in the case of separation or divorce.

The Commission recommended revising ERISA to permit voluntary adjustments in normal retirement ages in public and private pension plans in tandem with changes in the age of eligibility for full social security benefits.

F. RECOMMENDATIONS OF THE COMMITTEE FOR ECONOMIC DEVELOPMENT

The privately sponsored Committee for Economic Development released a report in September entitled "Reforming Retirement Policies." Their recommendations served as a counterpoint to the recommendations for mandatory pension coverage advanced by the

President's Commission. Taking a more optimistic view of the future development of private pensions, the Committee for Economic Development suggested that employer pensions could be improved and coverage expanded primarily through the use of tax and regulatory incentives. The committee concluded that:

> A Government mandate for private-employer pensions is neither necessary nor feasible. Nevertheless, changes in the tax law would make it more attractive for more employers to establish pension plans.
>
> Employee contributions to both private and Government pension plans should be tax deductible, and pension benefits should be included in taxable income when received. This will encourage the growth of employer pension plans in all industries, thereby enlarging this channel for saving and investment.
>
> Employers should have maximum flexibility in setting their own pension and retirement policies. They should be able to raise, gradually and voluntarily, the normal retirement ages in their pension plans, consistent with whatever changes are made in the social security retirement age. This and the preceding proposal will encourage more workers and employers to contribute to employer pension plans that can be tailored to the specific needs of their industrial and occupational structures.
>
> To encourage greater portability of vested pension benefits, an employee leaving an employer is now allowed to continue in that employer's plan and ultimately to receive retirement benefits from it. As an alternative, the employer could be permitted to offer the employee leaving the pension plan the option of transferring vested benefits into an individual retirement account (IRA) or life insurance annuity. This may be an especially attractive option when the pension plan is fully funded. Where the plan is not fully funded, a difficult problem exists with respect to providing equal treatment for those leaving and those remaining in the plan. All cash withdrawals of over $500 should be forbidden.
>
> The Federal Government should take action to require all public-employer pension plans to accurately report their unfunded liabilities, as well as their normal total annual cost, to the general public in a manner similar to the Financial Accounting Standards Board's requirement that private-employer plans accurately report unfunded liabilities.

2. PENSION REGULATION

In the seventh year of the regulation of private pension plans under ERISA, there is continuing concern that the regulatory burden on some employers is too great, and that administration and enforcement of ERISA is inefficient and ineffective.

A. REPORTING AND DISCLOSURE PROVISION

The reporting and disclosure provisions of ERISA have been the most frequently criticized of ERISA's requirements. These provisions are seen as imposing a considerable paperwork burden and cost on the employer, with relatively little gain to the employee in added benefit protection. It has been estimated, on the basis of a study of a small number of plans, that the costs to employers of preparing and filing one of ERISA's forms (the form 5500 ERISA annual report) may exceed $50 million.[24] The purpose of the reporting and disclosure requirements of ERISA is to provide the information needed by the Government to enforce the law, to provide information for research on pension issues, and to provide information to plan participants and beneficiaries. Yet there is evidence that the administering agencies have not adequately processed and maintained the information, nor have they effectively monitored the plans. In addition, little has been done to make the information available to researchers. In some cases, funding for the production of statistical reports has been curtailed. Finally, some critics maintain that the plan beneficiaries and participants show little interest in the information which is provided to them.

In October 1981, the General Accounting Office (GAO) released a report on the management of pension plan information, which cited continuing problems in the collection and utilization by managing Federal agencies of information required under ERISA.[25] Specifically, GAO found that the lengthy and complex annual report to the IRS (form 5500) was frequently not being filed or was being filed with incomplete information. When information was missing, IRS was not making an adequate effort to complete the form. GAO also found that the Pension Benefit Guaranty Corporation (PBGC) was not using the annual report information collected by the IRS to identify plans not paying plan termination insurance premiums. As a result, GAO estimated, PBGC was losing $1.4 million a year in premium payments. Further, GAO concluded that the ERISA requirement that plan sponsors provide summary plan descriptions (SPD's) to participants and beneficiaries and the Department of Labor every 5 to 10 years was creating unnecessary costs for plan sponsors. Plans filed summary plan descriptions originally in 1977, and are scheduled to refile in 1982. GAO pointed out that although the Department of Labor spent over $1 million in 1977 collecting and copying SPD's, there has been little public or research interest in having access to the data. In addition, the Department has been unable to locate a large percentage of the SPD's requested by the public. GAO recommended that Congress eliminate the requirement for routine filing of summary plan descriptions before the 1982 refiling begins.

In addition, GAO recommended simplifying the annual report form because the benefits yielded by much of the information on the form are not worth the costs.

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[24] A 1978 study by Arthur Anderson & Co., indicated that for 48 large companies the cost of filing the 5500 forms was $9 million per year.

[25] U.S. General Accounting Office, "Bettter Management of Private Pension Plan Data Can Reduce Costs and Improve ERISA Administration" (Report No. HRD-82-12, Oct. 19, 1981).

Another study of reporting and disclosure problems, completed by the GAO in September 1981, focused on the inadequate reporting of plan termination actions and the lack of IRS review of these actions.[26] GAO concluded that the interests of plan participants were inadequately protected because IRS was not adequately reviewing terminating plans to assure that asset distributions were equitable and that participants were not losing benefits. GAO also criticized the fact that IRS reviews of terminations were not mandatory. Without mandatory review it is likely that plans not meeting ERISA and IRS standards are not reviewed. GAO recommended making IRS review of terminating plans mandatory for tax qualification of terminating plans before plan dissolution.

The Vice President's Task Force on Regulatory Reform is currently analyzing regulations, including those under ERISA, to determine the effect of these regulations on small businesses. In addition, an in-house task force at the Department of Labor is reviewing all of the ERISA reporting and disclosure requirements. The administration's stated objective is to reduce unnecessary paperwork. It appears that the focus of this effort will be on changes that can be made administratively without legislation, such as:

—Deferring the due date for updating summary plan descriptions.

—Simplifying the summary annual report, which is provided to participants and beneficiaries, for small plans.

—Eliminating items on the form 5500 series which are not used and improving the quality of remaining items.

B. PROHIBITED TRANSACTIONS

ERISA currently prohibits most transactions between a plan and a "party-in-interest" (i.e., a fiduciary, contributing employer, employee organization, or service provider). ERISA also prohibits a fiduciary from acting on behalf of a plan when they have interests which conflict with the interests of the plan. These provisions are intended to prevent potentially abusive situations from occurring. Anyone who wants to engage in a prohibited transaction must be granted a specific exemption by the Department of Labor. The Department of Labor, however, may also grant "class exemptions."

Those who are concerned about the prohibited transaction provision argue that the provisions are so broad that they obstruct routine transactions where there is no conflict of interest. It raises the likelihood that large plans will engage inadvertently in prohibited transactions, and further complicates the day-to-day fiduciary activities of the plans. The current procedure for obtaining individual exemptions from the Department of Labor is cumbersome and time consuming, although improvements have recently been made in the time elapsed in issuing exemption decisions. Another objection to the prohibited transactions provision is that it prevents small businesses from using any of its resources tied up in pension assets for capital improvements.

Some of the suggested changes in prohibited transactions would require legislation. The Nickles-Erlenborn bill, for example, would allow transactions between the plan and "parties-in-interest" as long as there was "adequate consideration" (e.g., fair market compensation). The administration, however, has not endorsed the "adequate consideration" standard because it would require that the Department of Labor expend substantial resources enforcing the standard on an after-the-fact basis.

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[26] U.S. General Accounting Office, "Tax Revenues Lost and Beneficiaries Inadequately Protected When Private Pension Plans Terminate" (Report No. HRD-81-117, Sept. 30, 1981).

Instead, the administration has proposed issuing administrative "class exemptions" to exempt transactions which would not endanger plan assets. Two specific class exemptions which appear currently to be under consideration are an exemption for plans with fewer than 250 participants for prudent dealings involving less than one-third of the plans assets which observe an "arms length" standard, and an exemption for plans employing the services of qualified professional asset managers.

E. SOCIAL SECURITY AND PRIVATE PENSIONS

The administration's May 12 social security proposals for reductions in early retirement benefits and slowed growth in future benefits levels raised immediate concern about the total effect of changes in social security benefits on the retirement income of the elderly. Social security is not an isolated retirement income program, but rather an integral part of the total retirement income portfolio of working and retired Americans. Because social security is interconnected with private pensions, and individual savings and employment decisons, an understanding of the total effect of a change in social security benefits must take into account the reciprocal effect of the change on other components of retirement income.

To focus on the effects of social security changes on retirement income, the Special Committee on Aging held a hearing on "Social Security Reform and Retirement Income Policy" (discussed in chapter 3) and solicited a special analysis of "Linkages Between Private Pensions and Social Security Reform" from Dr. Bradley Schiller and Dr. Donald Snyder of American University.[27]

1. Pension Benefit Linkages [28]

The most direct linkage between private pensions and social security is through pension integration. Statistics on pension integration conflict but it is safe to say that more than a third of all pension plans are integrated in some fashion with social security. Integration gives recognition to the value of employer contributions made to social security. In accordance with Internal Revenue Service guidelines, employers are permitted to take the value of these contributions into account in structuring pension plans. Generally speaking, since social security benefits are based only on earnings up to the social security taxable wage base, employers may provide pension contributions on earnings above this level without having to provide the same contributions on earnings below it, provided that the combined social security and pension benefit does not favor the more highly paid. Alternatively, employers may develop a formula for determining pension benefits which takes into account the employee's benefit from social security. Since social security benefits are weighted in favor of the lower paid, pension integration permits the plan to counterweight or tilt its benefits in favor of the higher paid. Integrated pension plans, therefore, give higher paid workers a better pension benefit to offset the lower replacement rate they receive through social security. In addition, pension integration helps to reduce the cost of the plan for providers, in part compensating for the employer's payment of social security taxes on behalf of the worker.

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[27] The paper provided to the committee by Dr. Schiller and Dr. Snyder is expected to appear as a committee print, but has not been published at the time of the publication of this report.

[28] This discussion of pension integration also draws extensively from Dan N. McGill, "Fundamentals of Private Pensions," fourth edition (Homewood, Ill.: Richard D. Irwin, Inc.), 1979, chapter 10.

Pension integration formula use either an offset or an excess method for coordinating pensions and social security. Under the offset method, a plan may incorporate a proportion of an individuals' social security benefit in computing the benefit that will be provided by the pension plan. Offsets are found only in defined benefit plans. In 1974, only about 16 percent of all plan participants were covered by plans which used a direct offset.[29] Recent estimates imply, however, that offsets have become more popular. In 1980, about 30 percent of all participants in private pension plans were covered by a plan with an offset provision.[30]

The excess method of integration provides a higher pension benefit or contribution in regard to earnings above the plan's integration level than it does in regard to earnings below it. As of 1980, about 16 percent of all participants in private pension plans were covered by a plan using an excess method of integration.[31] A pure excess method pays pension benefits only for earnings in excess of the integration level. A step-rate excess formula pays benefits at a higher rate on earnings above the level taxed for social security. Excess methods are used in both money-purchase and earnings-related plans.

In money-purchase plans, contributions are made to the plan either exclusively—or at a higher rate—for earnings above the integration level, which may be the social security taxable wage base for the year of contribution ($29,700 in 1981).

In earnings-related plans, pension benefits may be calculated as either a set percentage of earnings above the integration level or as a combination of a lower proportion of earnings below the integration level and a higher proportion above. In this case the integration level is social security "covered compensation," which is the average of the taxable wage base in the year in which earnings were counted. In 1974, only 1.5 percent of participating workers were in earnings-related plans using a pure excess method and only 10 percent were in earnings-related plans with a step/rate excess formula.

Flat-rate plans which pay benefits unrelated to a worker's earnings are not integrated with social security. There is little need for integration in most flat-rate plans since participants in these plans usually have little variation in earnings.

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[29] Unless otherwise noted, 1974 statistics on the proportion of covered workers participating in integrated pension plans are from the Schiller-Snyder study.

[30] U.S. Department of Labor, Bureau of Labor Statistics, "Employee Benefits in Industry, 1980," Bulletin No. 2107, table 28.

[31] Ibid.

Both offset and excess formulas are strictly controlled by anti-discrimination statutes of the Internal Revenue Code designed to prevent pension plans from using integration to divert plan assets unfairly to supervisory and more highly paid employees. Offset plans are not allowed to reduce pension benefits dollar for dollar for social security benefits. The maximum reduction is set at 83⅓ percent. In practice, however, plans rarely employ more than a 50-percent reduction—a $1-reduction in pension benefits for every $2 in social security. Plans using pure excess methods may not pay or contribute more than a specified proportion of earnings above the integration level. Plans using step-rate excess methods may not exceed a maximum specified difference between rates paid for earnings below and above the earnings level. The difference in benefits may not be more than 37½ percent; the difference in contributions may not be more than 7 percent.

Pension integration, where it applies, is an important factor intervening in the effects that social security benefit changes have on retirement income. For workers participating in plans with direct offsets, the reduction in social security benefits is partially compensated for by an increase in pension benefits. As a result, these workers have a retirement income which is insulated in part from social security changes.

The retirement income of workers participating in plans with excess methods is not insulated from changes in social security benefits, but can be affected by changes in the social security taxable wage level. In principle, because this level is now indexed for wage increases, it should move in tandem with workers' earnings and should have no effect on pension benefits. In practice, however, employers may select any integration level which is not higher than the taxable wage level or "covered compensation," and many plans do use a lower level with a periodic revision of the level. Where workers' earnings rise more rapidly than integration levels, increasing proportions of those earnings are being subject to a higher contribution or benefit rate. As a result, workers participating in excess plans may find their real pension benefits rising as a result of integration.

The importance of integration as insulation against social security benefit reduction should not, however, be exaggerated. Direct offsets share the costs of social security benefit reductions among plan participants and sponsors, and neither one is fully insulated from these changes. In addition, direct offsets appear to pertain to only one in three pension plan participants, and only about one in six labor force participants over 25. If these figures are still accurate, most adult workers have no insulation of any kind in their pensions against reductions in social security benefits.

2. Employment Linkages

Social security reform and private pensions are less directly but no less importantly linked through employment responses. Changes in social security which cause individuals to work longer or retire earlier can affect the size and timing of private pension outlays. At issue here is the question of what happens to an employee's decision to work or retire, and thus to private pension costs if social security reduces future benefits across the board or raises the age of eligibility for full benefits.

If there were no provisions in private pension plans constraining work force behavior, it is likely that an increase in the age of eligibility for full social security benefits would encourage individuals to work longer to avoid having their monthly benefits reduced. Regardless of this delay in retirement, however, retired workers would end up receiving less in total social security benefits over their lifetime. An across-the-board cut in benefits would have a similar effect. The effect of these changes on the number of workers who would decide to delay retirement at each age would be a function of the size of the benefit reduction in social security at that age. Raising the retirement age from 65 to 68, and leaving the early retirement age of 62 in place, would result in a higher benefit reduction for workers continuing to retire between 62 and 65, than for workers retiring after 65. As a result, the decrease in the number of retirees would be greater among workers younger than 65 than among workers over 65. An across-the-board reduction in future benefits, however, would result in a roughly equivalent decrease in retirees below and above age 65.

The net effect of this change in retirement patterns on pension costs would be a result of the combination of two separate effects. First, an increase in delayed retirement would save pension plans money because, as long as private pension plans do not make an actuarial adjustment in benefits, workers will be receiving less in total benefit payments from the plan. However, continuing employment may increase the employees wage base and years of service used to compute benefits under the plan, resulting in higher benefits and higher pension costs. The net effect depends upon whether, and to what extent, the years of service and the wage base increase in the plan when an employee delays retirement.

Restrictive provisions in private pension plans which require that a worker retire at a certain age, or which give no credit or less than full credit for years of service or wage increases after a certain age, may enable pension plans to realize cost savings from delayed retirement. At the same time, these restrictive provisions may impose indirect financial losses on older workers who continue working, offsetting the incentives to delay retirement created by changes in social security. In 1974, at least one out of four older workers was participating in a pension plan that contained disincentives for delayed retirement after the normal retirement age (usually 65). The enactment of the Age Discrimination in Employment Act Amendments of 1978 which raised the mandatory retirement age from 65 to 70 had the effect of eliminating the explicit restrictions against continued work after 65. However, restrictions which prevent benefit accruals after age 65 remain.

In conclusion, the Schiller-Snyder study determined the effects of social security reform on retirement income and pension costs would be quite varied. In the event of a reduction in social security benefits, the retirement incomes of workers in pension plans with direct benefit offset provisions would be less affected than the retirement income of other workers; while the retirement income of workers in plans with restrictive employment provisions would be affected relatively more. By the same token workers in plans with direct offsets would be less likely to delay retirement than workers in plans without offsets. The incentive to delay retirement would be even less for workers in plans with restrictive employment provisions. Pension plans with benefit linkages to social security would incur the greatest cost if social security benefits are reduced. In addition, plans which do not have restrictive provisions are likely to incur higher costs if social security benefits are reduced. In short, the net impact of a uniform change in social security benefits will be distributed unevenly across workers and private firms.

F. PUBLIC EMPLOYEE PENSION PLANS

1. Civil Service Retirement

The civil service retirement system (CSRS) is emerging as both a target for cost control in Federal Government and as a focus for reform initiatives in retirement income programs. Cost control concerns result from the fact that system's expenditures are largely funded by annual general revenue appropriations and are projected to rise rapidly. It is becoming evident that the Government is paying higher costs per participant to operate the CSRS than a typical private employer pays for social security and private pension coverage. Because of concerns about CSRS costs and pressures on the Federal budget in future years, and also because of the growing awareness of the gaps in coverage experienced by a large proportion of Federal employees in the current retirement system, there is renewed interest in overhauling the civil service retirement system.

A. CSRS FINANCING AND COSTS

In May 1981, the Congressional Budget Office released a study entitled "Civil Service Retirement: Financing and Costs"; which evaluated the financial condition of the system and its costs to the Government. The study concluded that financial solvency was not really at issue with CSRS because annual appropriations from the general fund, which now finance roughly half of the system, will continue to be used to keep the system on a sound financial footing in the future. However, the cost of the CSRS to the Federal Government is at issue. Although there is no precise standard for comparing of CSRS benefits and Federal costs, with private-sector benefit and pay practices, Government costs for the Federal retirement system may be seen as excessive.

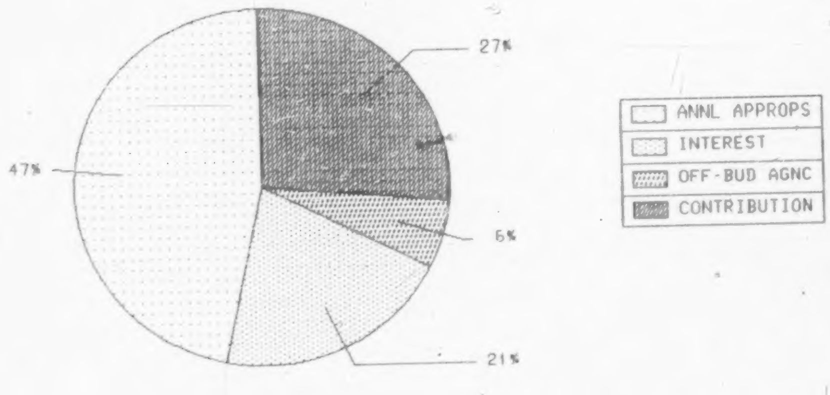
The civil service retirement system now covers 2.7 million active Federal civilian workers. In addition, there are currently about 1.8 million annuitants drawing retirement, disability, or survivor's benefits. From 1981 through 1986, over 500,000 new retirees are expected to begin drawing benefits. Total outlays which rose from about $3 billion a year in 1970, to almost $15 billion a year in 1980, are expected to double before 1986. Two-thirds of this $15 billion increase in annual outlays is expected to result from automatic cost-of-living increases.

Although CSRS appears to follow an objective of advance funding of benefits, because the account is included with the Federal budget with all reserves invested in Federal financial instruments, CSRS is actually funded on a pay-as-you-go basis, with a trust fund account set up to receive income and pay benefits. Although the availability of general funds to the system make a large trust fund reserve unnecessary, the CSRS trust fund as of 1980 had about 5 years' outlays on hand ($73.6 billion). The fund is expected to remain solvent throughout the next half century with sufficient reserves to pay at least 1 year's outlays. The bulk of the CSRS trust fund has come almost entirely from general fund appropriations, $59.7 billion in the last decade alone. Without the general fund appropriations of the last decade, the CSRS fund would be exhausted in 1982.

Employee and employer contributions to the CSRS provide relatively little of its total funding. While employees annually contribute 7 percent of payroll to civil service retirement matched by a 7-percent contribution from the employing agency's budget, these contributions together currently provide only 26.5 percent of the total income to the system. Contributions to CSRS from agencies that are off-budget (e.g., the U.S. Postal Service) provide only 6.2 percent of its income. Another 20.7 percent comes from interest on trust fund balances. The remaining 46.5 percent of the income to CSRS comes from general fund appropriations.

CHART 16

INCOME TO THE CIVIL SERVICE RETIREMENT TRUST FUND
BY SOURCE
FISCAL YEAR 1980



Source: Congressional Budget Office. Civil Service Retirement: Financing and Costs, May 1981. Table 1.

The role of general fund appropriations is expected to increase over the next decade. According to estimates from the Office of Personnel Management (OPM), general fund appropriations will grow in real terms (1980 dollars) from $6.7 billion in 1980, to $11.2 billion in 1990, resulting in an increase in the proportion of CSRS income coming from these appropriations of from 46 to 62 percent. The total cost of

CSRS to the Government is expected to rise in real terms from $9.6 billion in 1980, to $13.6 billion by 1990, and $20.2 billion by 2030. Today the Government (not including off-budget agencies) picks up about two-thirds of the tab for the Federal retirement program; in 50 years the Government is expected to be picking up three-quarters of this cost.

These projections of rising Federal costs for CSRS benefits reinforce pressures for changes in the system. CBO concluded in its study of the system:

> Although Federal employees contribute more toward their retirement program than they would under a private plan combined with social security, CSRS annuitants receive greater benefits. From this point of view, CSRS's costs to Government are excessive.
>
> If Federal white-collar employees, as a group, were covered by a representative private plan plus social security, the Federal cost (as a level percent of payroll) could range between 21 and 23 percent. This cost would be 2 to 7 percent of pay lower than the cost of current CSRS provisions, depending on the particular method, data, and assumptions used in the comparison.
>
> If the costs to the Federal Government of the CSRS system are regarded as excessive, there are only two ways to decrease them—either reduce benefit levels, or increase employee contributions.

B. COST-OF-LIVING ADJUSTMENTS TO FEDERAL RETIREMENT BENEFITS

The most apparent target for benefit changes in CSRS to reduce Government expenditures has been the automatic cost-of-living adjustment (COLA) to Federal retirement benefits. Congress first authorized the automatic COLA in civil service annuities in 1962, a full decade before indexing was authorized for social security. The early method of indexing CSRS annuities provided an annual adjustment of annuities equal to the annual increase in the CPI whenever that increase exceeded 3 percent.

Over the next decade provisions for indexing CSRS annuities were revised three times to improve the responsiveness of the annuity to inflation. In 1965, the time between the onset of inflation and the adjustment of the annuity was lessened by triggering the COLA on a monthly rather than an annual basis. As a result of the change, a COLA was made whenever the CPI was for 3 consecutive months at least 3 percent over the CPI for the month on which the previous increase was based. In 1969, a fixed "1-percent kicker" was added to the amount of the COLA to compensate for the timelag between inflation and the actual payment of a higher annuity. In 1973, the Congress sought to eliminate sharp differences in initial benefits resulting from differences in retirement dates by providing persons retiring the higher of two alternative calculations as an initial annuity—the so-called "look-back" provision.

Beginning in 1976, Congress began to reverse the liberalizing trend in the CSRS COLA. First, in 1976, Congress repealed the 1 percent add-on because it was found to overcompensate retirees for inflation.

To compensate retirees for the loss in future annuities from elimination of the "1-percent kicker," however, Congress replaced the triggered COLA with a regular semiannual COLA which went into effect regardless of the rate of inflation.

Increasingly conscious of the effect of COLA's on the budget, the House and Senate Budget Committees began in 1979 to anticipate savings from changes in the COLA for Federal retirees. Both elimination of the "look-back" and annual COLA's were considered but dropped in the fiscal year 1980 budget process. Both changes were again considered in the fiscal year 1981 budget process. This time, however, Congress replaced the "look-back" with a proration of the COLA for initial annuities in the Budget Reconciliation Act of 1980.

A change to paying annual Federal (civil service and military retirement) COLA's was raised again as an issue in 1981. The justification for semiannual COLA's has been that frequent adjustments of annuities are needed to keep pace with inflation. While the amount of the annuity in the end is no different whether it is adjusted once or twice a year, the timelag between inflation and adjustment is lessened with the semiannual COLA. As a result there is a smaller loss in the purchasing power of the annuity than there would be with an annual COLA. For many Federal retirees and survivors with low annuities, adequate inflation protection is essential to maintain an already low standard of living. According to OPM, there are over 200,000 annuitants who receive less than $200 a month and a half million who receive less than $500 a month. Further, the fact that inflation protection is better for Federal retirees than for social security or private pensioners is defended on the grounds that Federal wages tend to be lower, and that the Federal Government should set the standard for providing inflation protection in retirement income.

Cost-of-living adjustments to Federal civil service retirement annuities are, however, a major factor behind rising Government costs in the CSR system. Indexing will account for more than 60 percent of the added costs to the system over the next 5 years. The cost of indexing is financed almost entirely from general tax dollars. In 1980, while indexation added $1.3 billion in costs to the system, increased employee contributions added only $200 million in revenues. And at a time when real wages are declining and automatic annual indexing in all programs is being challenged, the semiannual indexing unique to Federal retirement programs was an obvious first target.

Both the Carter and the Reagan fiscal year 1982 budget requests included savings in the CSR system based on annualization of the COLA. The Congress included this change in the Omnibus Budget Reconciliation Act of 1981, (Public Law 97-35) passed by both Houses on July 31, and signed into law August 13.

As a result, beginning in 1982, Federal civil service and military retirees and survivors will receive a single annual COLA, effective March 1 of each year, equal to the change in the CPI over the previous 12-month period ended December 31. This change in the law retains the concept of full and automatic adjustment for inflation and will not reduce the amount of the annuity check once it is adjusted. It will, however, create a longer period between adjustments, resulting in a significant cash-flow savings for the Federal Government—estimated to be about $510 million in CSRS in fiscal year 1982.

C. REFORM OF THE CSRS

There is a growing awareness that the civil service retirement system (CSRS) is not only a costly system to operate, but is also a system which fails to provide adequate retirement income protection for a large portion of the Federal work force. The system is designed to reward career civil servants, and in comparison to private sector retirement systems, has the effect of rewarding those in high pay brackets. As a result, those who leave Federal service before retiring, and those in the lowest pay brackets usually end up with retirement benefits that are lower than those they might receive through a combination of social security and private pension. Ninety percent of the Federal work force is covered by the CSRS. Yet, one-fourth of the Federal employees will receive two-thirds of the benefits paid by the CSRS.[32] Half of the Federal workers who leave Government before retirement will receive no Federal pension benefits. These workers will have also sacrificed social security coverage for their years of employment with the Federal Government.

Problems with CSRS retirement benefits stem from four features of the current system. First, there is a complete lack of pension portability. Employees must have 5 years of service to become vested. Those who withdraw before 5 years receive no credit in any pension system for those years of service. They receive only their own contributions back with no interest. This compares poorly with workers in the private sector who carry with them social security credits for their years of service in any covered employment. Employees who vest in their Federal pension but leave Federal service prior to retirement receive no preretirement inflation adjustment in their benefits. This results from the fact that benefits are paid as a fixed proportion of unadjusted final (high 3 years) pay.

A second feature of the current system, which also penalizes workers who leave before retirement, is the formula for determining benefits. This formula pays benefits at a higher rate of earnings after an employee has been in Federal service for 10 years. As a result, 30- to 40-year career workers receive a higher proportion of their final pay in benefits than do 5- to 10-year (short stay) workers. Those who vest but only remain in Federal employment for 10 years receive relatively little retirement income in relation to their final pay.

A third feature of the current system tends to favor more highly paid workers. This occurs because of the absence of any weighting in the benefit formula to pay greater proportions of earnings to workers with lower earnings. Instead, the benefit paid for a given combination of years of service and age is a fixed proportion of final pay. Thus a worker retiring at 65, after 40 years of service, receives 72 percent of his final pay as a benefit whether his final pay was high or low. It is generally acknowledged, however, that to maintain their preretirement standard of living, lower income workers need a higher proportion of their earnings than do higher income workers. And it is common for private sector workers with low earnings to receive a higher proportional replacement of preretirement earnings from social security and their pension than workers with high earnings.

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[32] Estimates by the Congressional Research Service, reported in U.S. Senate, Subcommittee on Civil Service, Post Office, and General Services, "Restructuring the Civil Service Retirement System: Analysis of Options to Control Costs and Maintain Retirement Income Security," committee print, 97th Congress, 1st session, January 1982.

A fourth feature of the system provides a tremendous incentive to early retirement, and has the effect of diverting a disproportionate share of the benefits paid to those who retire before age 65. This feature is the payment of full pension benefits at age 55 with 30 years or more of service. By contrast, both private pension plans and social security base their benefits on retirement at age 65. Social security does not pay benefits to workers before age 62, and between age 62 and 65, monthly benefits are reduced to account for the greater number of years they will be drawing benefits. This "actuarial reduction" under social security is designed to assure that people who retire early do not end up receiving more in lifetime benefits than people who retire at age 65. It also helps to assure that social security's costs remain the same regardless of the age at which individuals choose to retire. In a similar fashion, private pension plans often have some reduction in monthly benefits for workers who retire early, although this is frequently less than an actuarial reduction. CSRS, which allows early retirees with long years of service to draw full pension benefits for life, pays high costs for this feature, because a large portion of the Federal work force retires early. In 1976, nearly half of all male civil service retirements occurred before age 60, compared to less than 10 percent of all male retirements in the private sector.

In effect, these features result in an implicit redistribution of retirement income from those who spend only part of their career in Federal employment to those who stay for a full career, and from those in low-pay classifications to those in high-pay classifications. (The differences between benefits paid by the CSRS and benefits paid by the private sector to workers with various age tenure and income combinations can be seen in the table below.) Those who leave early either forfeit all benefit rights or receive relatively low benefits. On the other hand, those who stay may retire early with full benefits, receiving an implicit subsidy from the leavers. This would be less of a problem if those who left Federal service received credit toward any retirement income for their years in Federal service. But lack of social security coverage effectively denies them the coverage they might otherwise receive in the private sector.

In addition to the gaps in providing retirement income, there are gaps in disability and survivors protection that result if workers move between jobs that are covered under social security and Federal employment. And, in general, disability and survivors protection under CSRS is inferior to that under social security.

TABLE 1.—SOCIAL SECURITY PLUS A PRIVATE PENSION

Age	Years of service	Retirement income as percent of final pay			
		Low salary		High salary	
		At retirement	15 yrs later	At retirement	15 yrs later
65	10	23	20	21	17
65	20	47	41	42	35
65	30	73	63	63	51
65	40	85	73	76	62
55	30	26	48	32	40

Source: Hay Associates.

TABLE 2.—CIVIL SERVICE RETIREMENT SYSTEM

Age	Years of service	Retirement income as percent of final pay	
		Low salary	High salary
65	10	15	15
65	20	34	34
65	30	53	53
65	40	72	72
55	30	53	53

Source: Hay Associates.

In response to these weaknesses in the CSRS and to the problem of rising costs, Senator Stevens, chairman of the Subcommittee on Civil Service, Post Office, and General Services of the Senate Committee on Governmental Affairs, requested in September 1981, the assistance of the Congressional Research Service (CRS) in developing options for modifying the current civil service retirement system. A final report prepared by CRS, titled "Restructuring the Civil Service Retirement System: Analysis of Options To Control Costs and Maintain Retirement Income Security," was issued in January 1982. In this report, CRS discussed four major options, and several variations on these options, which can help to control the cost of the CSRS and improve retirement benefits for many of those who now receive inadequate benefits from the system. Most of these options would reduce benefits for early retirees, but to those who continued to work until age 65 it would pay comparable—and perhaps relatively higher—after-tax benefits, than under the present system. In addition, those who have Federal employment would gain, in addition to social security, portable pensions under several of the options discussed. It is expected that changes in the CSRS would only be made mandatory for new Federal employees. These options analyzed by CRS are being considered in the context of new proposals from the administration to raise employee contribution rates and revise the COLA for workers and retirees presently covered under the existing CSRS.

2. State and Local Public Employee Pension Plans

In 1980 little attention was paid to the continuing problems of State and local government pension plans. These plans were intentionally not covered under ERISA in 1974, yet many of them face financing difficulties due to the existence of large unfunded liabilities, and many offer less protection for participants' benefits than do private plans covered under ERISA. Two bills were introduced in the House in 1981, similar to bills introduced in 1978 and 1980, to extend some of the provisions of ERISA to public plans, but no bills were introduced in the Senate. Most State and local officials, however, have opposed Federal regulation of their pension plans, and it seems likely that Federal legislative activity on State and local government pension plans will continue to be slow in 1982. The problems, however, remain a focus of concern in the retirement income field.

A. CHARACTERISTICS OF STATE AND LOCAL PLANS

The early development of State and local public employee plans predates the emergence of private pension plans. By the end of the 19th century, many large cities had pension plans covering groups of policemen, firemen, and teachers. Over 12 percent of the largest plans in current operation were in place before 1930. The number of public plans began to increase rapidly just before the enactment of social security and continued increasing until optional social security coverage was afforded State and local employees in 1950. Almost half of the largest State and local plans were established before 1950. Since then, the growth has been strongest for small public pension plans. Nearly two-thirds of the small plans have come into existence since 1950; a fourth of the small plans developed by 1975 were created in the 1970's.

In the last few decades there has also been a tendency for small plans to consolidate into larger plans. Over 40 percent of the larger State and local plans have increased their size by absorbing new employee groups. Over one-fifth of all plan absorptions completed by 1975 occurred in the first 5 years of the 1970's.

As of 1975, there were 6,630 State and local government pension plans with about 10.4 million active participants and 2.3 million eligible beneficiaries. These plans cover nearly all State and local government workers—but there remain 1 to 2 million public employees without pension coverage. Most of the plans were small plans, with over 80 percent of the plans having fewer than 100 active members. The largest plans, however, covered the bulk of the active participants. In 1975, there were 390 plans with 1,000 or more active members. While these large plans were only 6 percent of the total number of plans, they covered about 95 percent of the active membership of State and local government plans. Most covered employees (82 percent) were participating in defined benefit plans exclusively. Another 16 percent were participating in a combination defined-benefit/defined-contribution plan. More than four out of five participating employees were required to make employee contributions to their plans.[33]

Unlike Federal employees, State and local government employees are usually covered under social security in addition to their public pension plan. Since 1950, it has been possible for States to enter into voluntary agreements with the Secretary of Health and Human Services to provide social security coverage for their employees. As of 1975, over 70 percent of all State and local government employees were covered under social security. After coverage has been in effect for 5 years, State and local governments may also terminate social security coverage for a group of employees by giving notice 2 years in advance. Once coverage has been withdrawn, it can never be reinstated for that group. In recent years, several State and local governments have chosen to terminate coverage for groups of their employees. Between 1958 and 1979, States filed notices to terminate social security coverage for 1,112

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[33] Committee on Education and Labor, House of Representatives, "Pension Task Force Report on Public Employee Retirement Systems," committee print, 95th Congress, 2d session, Mar. 15, 1978.

State and local groups. Over half of those requests were filed between 1976 and 1979. Of the 1,112 requests, 700 terminations have become final affecting about 130,000 employees, or 1 percent of the employees covered by social security.[34]

B. ISSUES

When ERISA was enacted in 1974, the Congress intentionally excluded government retirement systems from the major provisions of the act to provide additional time for determining whether there was a need for further regulation of these plans.

ERISA did include a section 3301 requiring that several committees of the House and Senate establish a joint task force to study the adequacy of levels of participation, vesting and financing arrangements, and existing fiduciary standards, and determine the necessity for Federal legislation and standards with regard to government pension plans. The Pension Task Force Report on Public Employee Retirement Systems, issued on March 15, 1978, concluded, in general, that:

> The universe of public employee retirement income systems (PERS) exerts a substantial influence on the economic, social, and political fabric of the United States. The far-reaching influence of the PERS involves a fundamental national interest affecting the well-being and security of millions of workers and their families, the operation of the national economy, the revenues of the United States, and the relationships between the Federal Government and State and local governments. * * * The manner in which the assets of State and local government retirement systems are invested in the future will have a direct effect on the well-being and economic security of the 13 million current participants as well as the future participants in such plans. * * * The provisions and significance of the PERS have not been fully comprehended by plan participants, plan officials, other government officials, and taxpayers generally. As a result, the current regulatory framework applicable to the PERS does not adequately protect the vital national interests which are involved.[35]

In particular, the report noted a number of areas in which State and local public employee pension plans were deficient.

(i) *Regulatory and Statutory Confusion*

The Pension Task Force noted that there is tremendous variation and uncertainty in the regulatory and statutory provisions governing State and local pension plans, and in the interpretation and enforcement of these provisions. There is considerable confusion over how the Federal IRS Code affects public employee pensions, particularly the sections relating to nondiscrimination and plan qualification requirements. The task force found that it was unclear how these provisions applied to public pensions. Theoretically, public pensions should be tax qualified to enjoy the same tax advantages as private plans, yet many public plans benefiting from these tax provisions are not tax-qualified. State laws were found to provide inconsistent and inadequate safeguards to the interests of plan participants. Frequently, States had not established clear standards for regulating the activities of plan fiduciaries and lacked effective means for remedying plan abuse.

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[34] U.S. Senate Special Committee on Aging, "State and Local Government Terminations of Social Security Coverage," committee print, 96th Congress, 2d session, December 1980.

[35] Committee on Education and Labor, House of Representatives, "Pension Task Force Report on Public Employee Retirement Systems," committee print, 95th Congress, 2d session, Mar. 15, 1978.

(*ii*) *Participation, Vesting, and Portability*

The task force found that most public plans met ERISA's minimum participation and benefit accrual standards. However, fully 70 percent of the plans, covering one-fifth of the employes, did not meet ERISA's minimum vesting requirements.

Social security was found to be the best portability protection for public employees, and the only protection other than vesting of the pension for employees who changed from public to private sector jobs. However, most employees (82 percent) had some means for transporting pension credits to other government jobs within the same State, and 13 percent of the employees had a means for transporting pension credits to government employment outside the State.

(*iii*) *Reporting and Disclosure*

One of the most serious problems identified by the Pension Task Force was the lack of adequate reporting and disclosure of plan information to plan participants, public officials, and taxpayers.

The task force found that:

> Public employee retirement systems at all levels of government are not operated in accordance with the generally accepted financial and accounting procedures applicable to private pension plans and other important financial enterprises. The potential for abuse is great due to the lack of independent and external reviews of the operations of many plans.

(*iv*) *Funding*

Another serious problem noted by the task force was the failure to adequately fund government pension plans to pay promised benefits. Plan participants, plan sponsors, and the general public were largely unaware of true plan costs. As a result, States and localities were failing to collect and make sufficient contributions.

> The high degree of pension cost blindness which pervades the PERS is due to the lack of actuarial valuations, the use of unrealistic actuarial assumptions, and the general absence of actuarial standards.

While most plans had accumulated substantial funding reserves, the costs of pensions as a percentage of payroll was rising because of the lack of adequate funding practices. Seventy-five percent of the plans using actuarial funding methods were understating the costs, and 40 percent of the total Federal, State, and local pension plans failed to meet the minimum funding test of pension experts. Almost 17 percent of the plans were funded on a pay-as-you-go basis—many of these in fiscally distressed cities or smaller cities and counties. These localities had no real assurances that their tax base in the future would be able to support the benefits promised.

(*v*) *Benefit Reductions and Losses*

The task force found that plan terminations and insolvencies were rare, but that when plans did become insolvent or terminated, participants could suffer temporary or even permanent benefit losses.

> The evidence shows that public employees do face the risk of pension benefit reductions or other benefit curtailments due to reasons other than plan termination. For example, 8 percent of the pension plans at Federal, State, and local levels covering 18 percent of the employees have been amended to reduce the value of past or future pension benefit accruals for active employees, while other plans have scaled back certain plan features for new employees only.
>
> It appears that the greatest risk to public employees of having pension benefits reduced or other benefit features curtailed relates to governmental financial problems and the underfunding of public pension plans. Mismanagement, financing limitations, exceedingly high pension obligations, and financial emergencies have all contributed in the past to situations of pension plan insolvency or near-insolvency. As a result of these situations, some public employees have suffered temporary and, in a few cases, permanent benefit reductions.

(*vi*) *Postretirement Inflation Protection*

Public employee pension plans tend to surpass private plans when it comes to making cost-of-living adjustments (COLA's) to pension benefits. The task force found that over 95 percent of all government employees were in pension plans with some method for making post-retirement cost-of-living adjustments. However, only about 5 percent of the employees were in plans which granted full automatic COLA's. Forty-six percent of the employees were in plans which made limited automatic adjustments, and 61 percent were in plans which made only ad-hoc adjustments. Inflation protection was most deficient in small plans, 63 percent of the employees covered in these plans received no COLA's at all.

(*vii*) *Investment of Pension Funds*

The task force found open opportunities for abuse in the management and investment of public plan assets. Some were found to have no statutory guidance at all, others operated under a tangle of conflicting statutes. There was a general absence of uniform standards of conduct.

The task force also found conflict of interest in many instances because of the investment of pension funds in State and local government securities. Restrictive investment practices were also found to have impaired investment returns to pension funds.

C. PERISA

Since 1978, the findings of the Pension Task Force have led to the introduction in the House of a number of Public Employee Retirement Income Security Act (PERISA) bills to bring public pensions under a regulatory structure similar to ERISA. In 1981, there were two PERISA bills introduced in the House—H.R. 4929 introduced by Representative Phillip Burton, and H.R. 4928 introduced by Representative John Erlenborn. These bills are similar in many respects. They focus primarily on cleaning up the regulatory confusion regarding the requirements for tax qualification of State and local plans; improving the actuarial valuation of these plans; improving the reporting and disclosure of plan information; and establishing fiduciary standards for public employee pension plans. H.R. 4928 specifically would:

—Require the disclosure and reporting to participants and their beneficiaries, employers, employee organizations, and the general public, of financial and other information about such plans;

—Establish standards of conduct and responsibility for fiduciaries of public employee pension benefit plans;

—Provide appropriate remedies, sanctions, and access to Federal courts; and

—Clarify the application of the Internal Revenue Code to public pension plans and extend the tax benefits of qualified plan status to such plans and their participants.

These bills would, however, exempt States from reporting and disclosure requirements if the Governor certified that the law of the State already set equivalent standards. In addition, these bills intentionally avoid the application of any ERISA standards of eligibility, participation, or vesting to State and local plans. And public plans would also be left exempt from Internal Revenue Code provisions which limit benefits and contributions, set social security integration rules, or establish pre-ERISA eligibility standards.

D. OPPOSITION OF STATE AND LOCAL GOVERNMENT OFFICIALS

Most State and local government officials have opposed Federal regulation of their pension plans, and arguments in support of their position were advanced by the Advisory Commission on Intergovernmental Relations (ACIR) in its December 1980, Commission report on the subject.

The Commission recommended no Federal regulation of State and local government pensions, and gave the following reasons in support of its position:

> In recommending against Federal regulation of State and local pension systems, the Commission rested its case upon five major arguments:
>
> Our Federal system with its emphasis on State sovereignty requires that States have full responsibility for determining all basic components of their public employees' compensation, and that of the local employees within the States.
>
> The unique and diverse nature of State and local retirement systems requires the kind of adaptation and fine tuning

> that only State and local government control and regulation can provide.
>
> State and local governments have made significant progress during the past few years in putting their own retirement systems in order.
>
> There is no convincing evidence that the Federal Government has any compelling "national interest" in regulating State and local public pension systems.
>
> Even mild or limited forms of Federal regulations are undesirable given the tendency for Federal regulatory agencies and the courts to take a friendly piece of legislation and turn it into an unfriendly set of regulations.

The ACIR also recommended that State and local pensions be exempt from all ERISA provisions: that no mandatory social security be imposed on State and local employees; and that the option for State and local governments to terminate social security coverage should not be withdrawn.

G. RAILROAD RETIREMENT SYSTEM

The railroad retirement system (RRS) is a federally legislated retirement system covering employees in the railroad industry, with benefits and financing partially intertwined with the social security program. Credits toward benefits are secured primarily by employment in the railroad industry, although employees also receive credit for earnings covered by social security. Benefits are financed through a combination of employee, employer, and Federal Government payments to a trust fund. More than 1 million Americans receive benefits from the railroad retirement system, and payments to these beneficiaries are estimated to reach $5.9 billion in fiscal year 1982.

Like the social security system, the railroad retirement system during 1981 faced the threat of both short-term financing problems and longer term financing problems.

In the short term, the system was projected to have insufficient revenues to make full monthly benefit payments as early as the spring of 1982. The following table of trust fund operations illustrates that over the last few years, the flow of revenue has been insufficient to maintain a level balance in reserves.

TABLE 3.—TRUST FUND OPERATIONS, 1975 TO 1982

[In millions]

	Income [1]	Outgo (net benefits)	Trust fund balance [2]
Fiscal year:			
1975			$3,950
1976	$3,334	$3,569	3,715
Transitional quarter	500	1,058	3,157
1977	3,591	3,819	2,929
1978	4,159	4,316	2,773
1979	4,532	4,647	2,658
1980	4,820	5,226	2,252
1981 [3]	4,759	5,470	1,569
1982 [3]	5,150	5,896	823

[1] Taxes, interest on investments, appropriations for windfalls.
[2] End of fiscal year.
[3] Estimated.

Source: Railroad Retirement Board.

Over the long term, there has been a steady decline in the number of railroad industry employees relative to beneficiaries. Although the ratio of employees to beneficiaries has possibly stabilized, and may even improve by the end of the decade, the experience over the last four decades has been a lower worker/beneficiary ratio and lower revenue to the trust fund during a time of increasing demand for payment. The following table shows the number of workers and beneficiaries since 1940.

TABLE 4.—EMPLOYEES IN THE RAILROAD INDUSTRY AND BENEFICIARIES OF THE RAILROAD RETIREMENT SYSTEM SINCE 1940

[In thousands]

Year	Average employment	Beneficiaries
1940	1,195	173
1945	1,686	210
1950	1,421	461
1955	1,239	704
1960	909	883
1965	753	980
1970	640	1,052
1975	548	1,094
1976	540	1,100
1977	546	1,107
1978	542	1,100
1979	554	1,093
1980	531	1,084

Source: Railroad Retirement Board.

This longer term financing problem was aggravated in the short term by two other factors. First, the payroll tax rates have been below what was needed to match benefit expenditures. Second, congressional appropriations for the so-called "windfall" benefits have been far below the amounts required to pay those benefits, and the difference was paid out of the trust fund.

Traditionally, because rail management and labor are affected by Federal decisions in railroad retirement, both have been given leading roles in the development of solutions to problems arising in the program. Over the last 3 years, representatives of management and labor have sought agreement for placing the system on a sound financial basis. In 1981, representatives of rail management and labor produced a package of changes designed to resolve the short- and long-term financing problems of the railroad retirement system. Legislation embodying these changes is contained in the Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35), and in the Economic Recovery Tax Act of 1981 (Public Law 97–34).

The basic changes include creation of a separate dual benefit payment account for so-called "windfall" benefits, some basic benefit modifications and some benefit liberalizations, payroll tax increases and limited general revenue borrowing authority.

1. Changes in Windfall Benefits

The background for this so-called "windfall" benefit is very technical. As a result of financial coordination of the two systems in 1951, each railroad annuity had a social security component built into it.

But, if an individual qualified for two separate retirement benefits, one under social security and one under railroad retirement, the combined benefits for work under social security were higher than the individual would have received if he or she had worked exclusively under social security. This placed a financial drain on the railroad retirement system, which was on the verge of bankruptcy in 1974. Nearly 40 percent of all railroad beneficiaries qualified for social security at that time.

In 1974, Congress changed the law so that no one in the future would earn the right to dual social security and railroad retirement benefits, by coordinating the benefit structures of the social security and railroad retirement programs. The railroad benefit is now divided into two parts. The first part (tier 1) is basically a social security benefit based on railroad earnings and social security earnings. This part of the railroad benefit is reduced by any social security benefit for which the individual is eligible. The second part of the railroad benefit (tier 2) is an annuity based only on railroad service. Together, the two parts give the worker credit for all work under social security and railroad. But the tier 1 component, plus any social security benefits earned, should produce a combined benefit for social security equal to what the individual would have received if all his or her earnings were covered under the Social Security Act.

However, to protect the rights of those who had been working under the old law, Congress provided for a special, transitional third part of the railroad benefit only for those who qualified for both social security and railroad retirement benefits before the change in law. This third part is the so-called "windfall" benefit.

Under the 1974 act, the railroad trust fund was to be reimbursed from the general treasury on a level payment basis for these windfall payments. Benefit payments were expected to be higher than reimbursements in the early years of the level payment schedule and then lower in later years, as the number of eligible beneficiaries declined. The practical effect, however, was that the congressional appropriations were too small to fully reimburse the trust fund for current windfall payments, which drew down the railroad trust fund by the unreimbursed amount. For fiscal year 1981, the Railroad Retirement Board (RRB) received less than it said it needed for so-called windfall benefit payments because OMB proposed legislation placing a cap of $350 million on windfall appropriations.

What the Omnibus Budget Reconciliation Act of 1981 did is remove the obligation to pay these windfall benefits from the main RRS fund, by creating a separate dual benefit payment (windfall) account. This change eliminated a major cause of erosion of the reserves of the railroad retirement account, but it also made payment of windfall benefits totally dependent on the specific annual appropriation by Congress.

On October 1, 1981 (the beginning of the new fiscal year), the Railroad Retirement Board, anticipating an annual appropriation at the same level of last year, reduced the so-called windfall portion of railroad retirement benefits by 21 percent. In other words, because the $350 million appropriation amounted to only 79 percent of the $440 million required for full funding, the difference—21 percent—was prorated among all the recipients of the so-called "windfall" benefits. Not all 1.1 million railroad annuitants were affected; only the 389,000 annuitants with coverage under both social security and railroad retirement. The average monthly loss was $20 per beneficiary, reducing the average monthly annuity from $331 to $311.

During its consideration of the continuing resolution, the Senate voted on November 19, 1981, by a vote of 61–34, to restore the $90 million required for full funding of the dual benefits account. The House version of the continuing resolution contained no additional funding, however. The conferees split the difference and added $45 million to this account, providing a funding level of $395 million, or a roughly 10 percent benefit reduction. President Reagan vetoed this continuing resolution.

On December 1, the Railroad Retirement Board authorized the December checks with no windfall payments, because it was uncertain what the appropriation level would be. In addition, the Railroad Retirement Board had been told by the Office of Management and Budget that the December checks should contain a further 12-percent reduction in windfall benefits, bringing the total planned reduction to 33 percent.

On December 2, Senator Heinz, chairman of the Special Committee on Aging, sent a letter to OMB Director David Stockman protesting the additional planned cut in these benefits, and Senator Heinz also introduced an amendment to the Defense appropriations bill expressing the sense of the Senate that OMB not impose these further cuts. In the end, the Office of Management and Budget decided to issue a separate mailing of windfall benefit checks dated December 14, without the additional 12 percent reduction.

On December 11, the Senate approved a continuing resolution that provided funding of the Government through March 31, 1982. The section on railroad retirement benefits applies a 4-percent spending cut to a $395 million appropriation (the appropriation level in the vetoed continuing resolution), for a funding level of roughly $379 million, and a monthly benefit reduction of 14 to 15 percent, instead of the 21 percent cut imposed in October. In addition, during consideration of the continuing resolution in the House, Representative Silvio Conte, who was managing the bill, pledged that there would be an additional supplemental appropriation for the dual benefits account in February 1982.

Senator Heinz, in a colloquy with Senator Hatfield on December 11, confirmed that the Senate Appropriations Committee would expeditiously consider such a supplemental appropriation, if it were to come over from the House.

2. BENEFIT CHANGES

The major benefit reduction enacted in the RRS in 1981 is a modification in the cost-of-living adjustment for survivor benefits, which adjusts both the basic tier I benefit and the industry tier II benefit at the same rate as they are adjusted for retirees, i.e., 100 percent of the CPI for tier I and 32.5 percent of the CPI change for tier II. The spouse's benefit is also slightly modified under the Omnibus Budget Reconciliation Act.

Not all the benefit changes are benefit reductions, however. In fact, some benefit liberalizations are also included, which are estimated to cost $23 million in fiscal year 1982 and as much as $171 million by fiscal year 1986. For the first time, benefits will be provided to divorced wives, remarried widows, and surviving divorced mothers. These new categories of beneficiaries will receive the same treatment under railroad retirement as they would under social security.

3. PAYROLL TAX CHANGES AND BORROWING AUTHORITY

The other major piece of the railroad retirement refinancing proposals is contained in the Economic Recovery Tax Act of 1981, which authorized increased taxes and limited general revenue borrowing authority.

Congress, in line with the recommendation of labor and management, increased the tax on the tier II taxable payroll. For employers, the tax rose from 9.5 percent of taxable payroll to 11.75 percent effective October 1, 1981. Employees, who previously did not contribute for tier II benefits (they did contribute for tier I), now pay 2 percent effective October 1, 1981. The tax increase will add an estimated $512 million to the railroad trust fund in fiscal year 1982, rising to an estimated $712 million by fiscal year 1986.

To further improve the cash-flow situation of the railroad retirement program, the system was given limited authority to borrow money from the general treasury. The loans, which must be repaid with interest, are really an advance by the Treasury against the sums which the Social Security Administration pays to the railroad retirement system each year in June. Under the so-called financial interchange, social security reimburses railroad retirement for the difference between the additional benefits social security would have had to pay to railroad beneficiaries and the payroll taxes which railroad employees would have paid into social security.

In budget reconciliation, however, this limited borrowing authority was accompanied by a "benefit preservation" feature which has three major parts: (1) The RRB must notify Congress whenever the borrowing authority will exceed 50 percent of the available amount; (2) not later than 180 days after such notice, representatives of rail management and labor must submit refinancing proposals to the President and the Congress; and the President must submit to Congress recommendations for resolving the financing crisis, including a plan to phase out Federal responsibility for the railroad retirement system by covering rail employees and retirees under social security and by requiring the rail industry to assume responsibility for all other remaining components of the pension plan; and (3) not later than 180 days after the "benefit preservation" feature is activated, the RRB must announce the method for allocating reserves in any month in which inadequate funds precludes full payment of benefits, with highest priority given to the payment of social security benefits.

In summary, the railroad refinancing package contains four parts: (1) Benefit modifications; (2) payroll tax increases; (3) limited borrowing authority against annual payments due from social security; and (4) creation of a separate account for windfall benefits. The general substance of the benefit modifications (including the separate windfall account) and the limited borrowing authority were accepted by both the House and the Senate in their reconciliation measures. The payroll tax increases and the identical language on limited borrowing authority were included in the Economic Recovery Tax Act of 1981.

If the economy performs at least as well as the so-called intermediate assumptions, the refinancing package will provide an adequate cash flow in the next few years and adequate financing for the remainder of the decade.

In any event, the Omnibus Budget Reconciliation Act of 1981 also contains a provision requiring the President to submit a report to the Congress by October 1982, with recommendations for assuring the long-term financial integrity of the railroad retirement system.

A study released by the Congressional Budget Office (CBO) in December 1981, outlined four options that could be considered in order to alleviate the long-term problems of the system beyond the end of the 1980's:[36]

(1) Reduce early retirement benefits actuarially. Now, career employees with 30 years of service can retire at age 60 without reduced benefits.

(2) Reduce spouse's benefits under the staff component (tier II) of this two-part benefit formula (tier I equals the equivalent of social security, tier II is the staff pension plan). Normally, under private pension plans, workers receive a reduced benefit if they elect to provide benefits to a spouse—which is not the case under railroad retirement.

(3) Tax railroad retirement benefits. Although private pensions are taxable, railroad retirement benefits are tax free.

(4) Merge the social security equivalent (tier I) under the Social Security Administration and discontinue Federal responsibility for tier II benefits, making tier II a fully private plan.

H. PROGNOSIS FOR 1982

At the end of 1981, several issues appear to remain important for 1982. First, there is a continuing interest, particularly in this administration, in the deregulation of private pension plans. Concern seems to be focused primarily on lowering business costs and increasing the discretion of plan fiduciaries in investing plan assets. Deregulation of private pensions may pose a serious threat to the benefit protections afforded under ERISA, and efforts to move in this direction could lead to considerable controversy. Yet, there are clear indications that the administration plans to treat pension deregulation as a high priority for 1982.

Provisions in the ERISA simplification bill now before the Congress would relieve some of the regulatory burden cited by the proponents of deregulation. However, the administration seems interested in accomplishing these changes through administrative and not legislative action.

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[36] The Railroad Retirement System: Benefits and Financing, December 1981.

Consideration of the Nickles-Erlenborn bill is likely to continue, at least in the Senate, in 1982, highlighting the tradeoffs between pension costs and benefit protections. However, it is difficult to anticipate which, if any, portions of this bill will be eventually reported out of Committee.

The costs of the Civil Service Retirement System (CSRS), military retirement, and railroad retirement benefits will remain sensitive issues in 1982. It is likely that the administration will propose further cost-saving or revenue-producing changes in CSRS in the fiscal year 1983 budget. Probable suggestions are an added 1.3-percent employee contribution on top of the current 7-percent contribution to pay for medicare coverage; and further reductions in Federal COLA's. This continuing effort to shift costs from the Federal Government to CSRS participants and beneficiaries should increase support among Federal workers and retirees for proposals which can limit executive and congressional discretion in the payment of benefits to Federal retirees. A bill to reform the civil service retirement system could well offer CSRS retirees and current participants some protection from the administration's budget proposals.

This increasing emphasis on controlling pension costs is likely, once again, to overshadow other pension issues. Again in 1982, concerns about pension coverage, and the adequacy of pension benefits, are bound to receive little legislative attention.

Chapter 5

SAVINGS

OVERVIEW

Congress took major steps during 1981 aimed at improving tax incentives to encourage personal saving for retirement. As part of the Economic Recovery Tax Act of 1981, Congress heeded the recommendations of various retirement income advisory groups and (1) raised the limits on tax deductible contributions to individual retirement accounts (IRA's) and Keogh accounts for the self-employed; (2) extended eligibility for IRA's to a broad new population previously excluded; and (3) changed the tax incentives for employee stock ownership plans (ESOP) in an effort to encourage the spread of such plans.

A. INTRODUCTION

In 1981, public policy placed considerable emphasis upon stimulating the growth of the national economy by encouraging investment. Any increase in investment in the economy must be accompanied by a corresponding increase in saving. Total national saving comes from three sources: Individuals save out of their personal income; businesses retain, and thereby save, some of their profits; and governments save when they run a budget surplus or dissave when they run a budget deficit. It is total national saving that supports total investment in the economy. A portion of saving flows into residential investment, investment in inventories, and net foreign investment (exports minus imports). The remainder is available to finance business purchases of plant and equipment. Thus, Federal spending and tax policies in 1981 focused upon reducing Federal expenditures, increasing tax incentives for business, and increasing tax incentives for personal saving, all as part of an effort to increase total national savings, total investment in the economy, and renewed economic growth.

This section on savings will, however, focus exclusively upon personal savings as a potential source of income to individuals in retirement. It is important to stress at the outset that accurate data on saving patterns of individuals are scarce, and the opinions of experts interpreting the data are often controversial.

We do know that the rate of personal saving in the United States has tended to be relatively constant, i.e., there have been cyclical changes during which the personal saving rate moves up and down, depending on the economy, but by and large, personal saving rates have fallen within rather narrow bounds. The following table shows personal saving as a percent of disposable personal income from 1929 to 1981.

TABLE 1.—*Personal saving as a percent of disposable personal income, 1929–81*

Year:	
1929	4.0
1933	−2.0
1939	3.1
1940	4.5
1941	11.2
1942	23.3
1943	24.7
1944	25.2
1945	19.2
1946	8.6
1947	3.1
1948	5.9
1949	4.0
1950	5.8
1951	7.1
1952	7.3
1953	7.3
1954	6.6
1955	6.0
1956	7.3
1957	7.2
1958	7.4
1959	6.2
1960	5.6
1961	6.3
1962	6.0
1963	5.4
1964	6.7
1965	7.1
1966	7.0
1967	8.1
1968	7.1
1969	6.4
1970	8.0
1971	8.1
1972	6.5
1973	8.6
1974	8.5
1975	8.6
1976	6.9
1977	5.6
1978	5.2
1979	5.3
1980	5.6
1981	[1]5.3

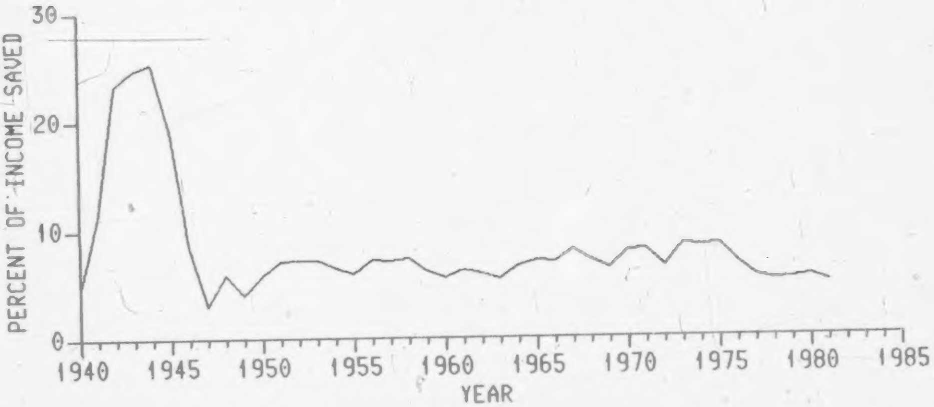
[1] Preliminary estimate.

Source: Department of Commerce, Bureau of Economic Analysis.

Except for the World War II period, when savings were as high as 25 percent of personal income because production focused on the war effort, the saving rate has more or less fluctuated between 5 to 8 percent of disposable income during the postwar period.

Cyclical changes, however, can also be important. Since 1975, for example, when the personal saving rate was 8.6 percent of disposable income, it declined to 4.9 percent of disposable income in the third quarter of 1981. A number of factors have been cited to explain the recent low saving rate. These include the high proportion of the work force consisting of younger people, who tend to save less; the increased

PERSONAL SAVING RATE
1940-1981



number of two-earner households; and the efforts to maintain consumption patterns in the face of inflation. Another factor cited has been the failure of tax policy to adequately reward saving, while making consumer debt relatively more attractive because of the tax deductibility of interest on consumer debt.

The recent cyclical downturn aside, however, it is also true that personal saving in the United States has been substantially below the saving rate of other industrialized countries. The following table and chart illustrate that in the other industrialized countries of the world individuals tend to save two or three times as much of their personal income as do Americans. (This disparity is clearly visible despite technical differences in definitions of saving and investment across countries.)

TABLE 2.—AVERAGE INVESTMENT AND PERSONAL SAVING RATES IN THE UNITED STATES AND OTHER INDUSTRIALIZED COUNTRIES, 1970–79

[In percent]

Country	Investment rate[1]	Personal saving rate[2]
United States	17.5	6.4
Great Britain	18.7	12.6
Italy	[3] 20.4	[4] 21.3
Netherlands	[3] 22.4	[3] 14.5
Canada	22.7	9.0
West Germany	23.1	14.9
France	[3] 23.3	17.2
Japan	33.1	[3] 20.5

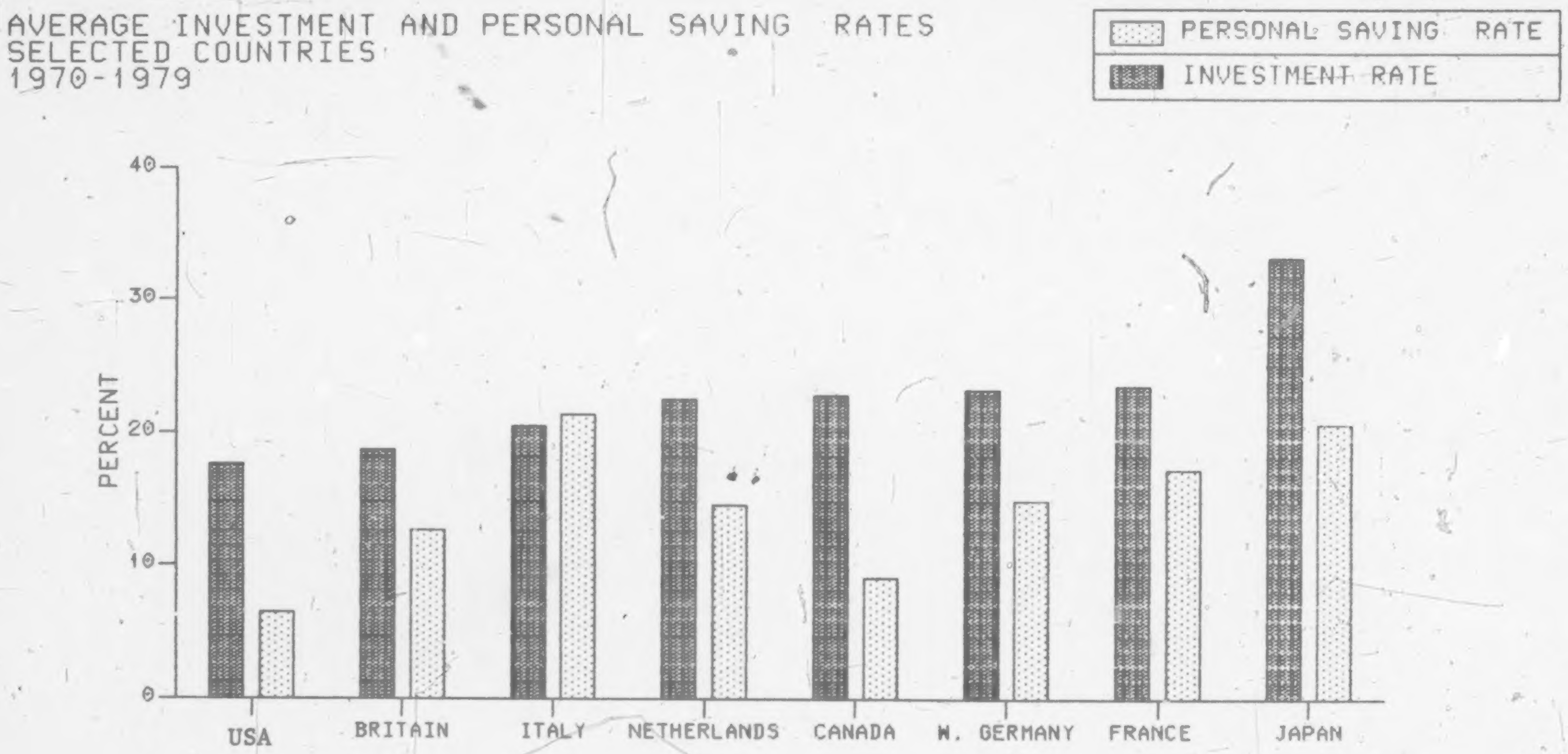
[1] Gross fixed private and nonmilitary government investment as a percent of gross national product.

[2] Savings as a percent of disposable personal income.

[3] 1970–78; 1979 data not available.

[4] 1970–77; 1978–79 data not available.

Source: U.S. Department of Commerce, "International Economic Indicators," September 1979 and June 1980.



Source: U.S. Department of Commerce, International Economic Indicators, September 1979 and June 1980. See footnotes in table 2.

B. RELATIONSHIP BETWEEN AGE AND SAVINGS

For many years, a so-called life-cycle theory of saving has been advanced by some analysts, which has postulated that individuals save very little as young adults, increase their savings in middle age, and then live off those savings in retirement, i.e. dissave. Thus, according to this theory, individuals entering retirement age would not be expected to save any more of their income, and they would be expected to deplete the savings they had previously accumulated.

The truth of the matter is that accurate, current data about the relationship between age and savings are not available. There are problems inherent in conducting surveys of individuals and asking what their assets are and how much income they derive from those assets. Such surveys, moreover, are expensive.

Nevertheless, two surveys of this subject were done in the 1960's and 1970's, the Survey of Changes in Family Finances (SCFF) commissioned by the Federal Reserve Board, and the Department of Labor's Personal Consumption Expenditure Surveys (CES).

TABLE 3.—SURVEY OF CHANGES IN FAMILY FINANCES: SAVINGS AS A PERCENT OF TOTAL INCOME[1]

	Age of head					
	Under 35	35 to 44	45 to 54	55 to 64	65 plus	All
Total assets	6.56	5.84	8.04	3.51	5.98	6.17
Business assets	1.75	−.57	1.21	−1.92	1.43	.36
Liquid assets	−.10	3.58	6.33	3.78	5.16	3.73
Checking deposits	.12	.28	.83	.74	.98	.54
Saving accounts	.35	3.01	4.49	2.60	4.26	2.74
Saving bonds	.13	.29	1.01	.43	.22	.46
Investment assets	4.37	2.19	−.62	1.12	−1.01	1.41
Miscellaneous assets	.05	−.11	.07	−.50	−.18	−.10
Retirement assets	.50	.76	1.05	1.03	.28	.77
Total debt	−14.84	−3.25	2.99	.39	−4.75	−3.64
Home	−12.77	−3.49	2.42	.38	.62	−2.85
Investment	1.91	1.23	.20	.27	−5.07	−.62
Personal	.16	−.97	.78	−.35	−.42	−.12
Installment	.46	.52	.99	−.69	.66	.44
Auto	.69	.49	.67	−.29	.10	.24
Nonauto	.55	.03	.33	−.40	.56	.20
Noninstallment	−.30	−1.49	−.21	.34	−1.08	−.55
Life insurance	−.32	−.02	−.02	.09	.12	−.05
Housing expenditures	19.52	6.31	2.13	3.65	−2.23	6.79
Auto expenditures	6.21	5.25	4.83	5.90	2.28	5.16
Net financial investment	−8.27	2.59	11.03	3.90	1.23	2.53
Total savings	17.49	11.19	18.29	13.45	1.28	14.47

[1] Calculated from SCFF data tape (N=2,159). Income is the total income received in the calendar year by all members of the consumer unit before any payroll or income tax deductions.

Source: Paul Wachtel, "The Impact of Demographic Changes on Household Savings, 1950–2050," President's Commission on Pension Policy, "Coming of Age: Toward a National Retirement Income Policy," technical appendix, Ch. 30.

These two surveys show that individuals do indeed tend to save more in middle age than they do in their youth or in old age. But the data also indicate that the elderly do continue to save at a rate that is not far from the national average, as shown by the saving rate by age of household head (table 5). There is little convincing evidence which shows that individuals generally exhaust or deplete their assets during retirement, and there is some opposing evidence which indicates that asset levels remain relatively constant during the retirement period.

TABLE 4.—CONSUMER EXPENDITURE SURVEY: SAVING AS A PERCENT OF BEFORE-TAX INCOME

	Age of head						
	Under 25	25 to 34	35 to 44	45 to 54	55 to 64	65 and over	Total
	Net changes in assets and liabilities						
Survey:							
1960-61	2.56	2.50	3.02	3.98	4.71	2.72	3.19
1972-73	5.92	8.36	8.18	7.75	9.37	5.62	7.22
	Net changes in assets						
1960-61	11.90	14.54	8.39	7.52	5.99	2.00	8.39
1972-73	12.90	22.59	13.13	9.84	9.22	6.30	12.82
	Net changes in liabilities						
1960-61	14.46	12.05	5.38	3.53	1.28	0.72	5.20
1972-73	18.82	14.61	4.99	2.09	.15	.68	5.60

Source: Paul Wachtel, "The Impact of Demographic Changes on Household Savings, 1950-2050."

TABLE 5.—SAVING RATE BY AGE OF HOUSEHOLD HEAD

Age of household head (years):	Percent saving rate[1] 1972-73
Under 25	−6.9
25 to 34	9.4
35 to 44	9.7
45 to 54	9.2
55 to 64	11.2
65 and over	6.1

[1] Saving as percent of disposable personal income.

Source: "Economic Report of the President," January 1979, p. 116.

A survey conducted in the summer of 1981 by Louis Harris & Associates and commissioned by the National Council on the Aging, Inc., found that even though the elderly had incomes only half as great as those between 18 and 54, the elderly seem to be coping almost as well. Louis Harris asked:

> How come? First, 66 percent of those 65 and over own their houses free and clear, while this is the case with only 12 percent of those between 18 and 54. Second, by any measure, the elderly are more frugal and experienced in the handling of their money. For example, in the last year, only 39 percent of elderly had to draw down on their savings to pay bills, while a much higher 52 percent of those under 65 had to do the same, even though both groups have the same number, 88 percent, who have a savings account.

C. ROLE OF SAVINGS IN RETIREMENT

1. Assets of the Elderly in Retirement

In January 1981, the Social Security Bulletin published a study by Joseph Friedman and Jane Sjogren analyzing the "Assets of the Elderly As They Retire." The study was based on a longitudinal analysis of 11,153 people age 58 to 63 in 1969 who had become 64 to 69 in 1975. The authors analyzed this group of people during that 1969–75 period to learn what types of assets were held by the elderly, how large were these assets, and how the assets changed as the people entered retirement.

Total assets include liquid assets (e.g., checking and savings accounts, stocks, bonds, and mutual funds), nonliquid assets (real estate and equity in businesses and professional practices) and home equity (the value of the home less any mortgage debt).

Nearly 90 percent of the group owned assets of some kind. The median value of the assets, however, was not large. Over the 1969–75 period, the assets values (in 1969 constant dollars) ranged from $19,000 to $21,000 for married men, $10,200 to $13,000 for nonmarried men, and from $8,800 to $9,600 for nonmarried women.

The distribution of the assets among the elderly was skewed. Although a large proportion of them had little or no assets, 4 to 5 percent had assets of more than $100,000, and another 8 to 9 percent had assets between $50,000 to $100,000. As one might expect, people with relatively higher incomes had larger amounts of assets than those with lower incomes.

Liquid assets were the most common type of asset held by older Americans. Nearly 80 percent of the sample population had some liquid assets. The amounts were small, however, with the median value being $3,000 to $3,600.

Nonliquid assets were held by less than one-third of the people.

But nearly two-thirds of the elderly owned a home, and more than 80 percent of the married men owned a home.

What is particularly interesting about this study is that there was no marked pattern of asset reduction over the 1969–75 period, which indicates that the group—as a whole—was not liquidating its wealth to meet retirement income needs. Some asset liquidation did occur, nevertheless, among people in the lower income group who also had substantial assets to draw upon.

This study portrayed a rather bleak picture of the economic well-being of older Americans. Generally, it found that as people reach retirement age and their incomes decrease, their property wealth is limited, and they can seldom be expected to rely on assets to maintain their previous standard of living. Although this is generally true, a small fraction of the elderly with incomes in the highest one-fourth of the group did have substantial asset wealth.

2. INCOME OF THE ELDERLY FROM ASSETS

Another Social Security Administration study published in 1981,[1] sheds light on a different set of questions: How many elderly people derive income from assets, and how large is that income? Based on the Census Bureau's Current Population Survey, more than three-fifths of the aged population in 1978 received asset income, including interest from savings accounts and bonds, dividends from stock, rental income, royalties, and income from estates and trusts.

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[1] "The Income and Resources of the Elderly in 1978," Social Security Bulletin, December 1981, pp. 3–11.

The proportions of elderly units reporting receipt of asset income were several percentage points higher in 1978 than in 1976. However, income from assets has been the least well reported source of income in the Census Bureau's Current Population Survey. Total amounts of dividend income, for example, derived from the Current Population Survey, equal only 38 percent of total amounts of dividend income estimated from other sources. The increase in the elderly's reported receipt of income from assets in 1978 may be a reflection of better reporting of such income in response to a revised questionnaire. On the other hand, the proportion of aged reporting receipt of income from assets has increased from 49 percent in 1971, to 56 percent in 1976, and 62 percent in 1978, which suggests a trend toward increasing receipt of income from assets among the aged during the 1970's.

The actual percentages of older men and women who received asset income in 1978 are shown in the following chart.[2]

TABLE 6.—NUMBER AND PERCENT OF INDIVIDUALS AGE 65 OR OLDER OWNING SELECTED FORMS OF ASSETS BY SEX, EARLY 1979

[Preliminary data]

Type of asset	Persons aged 65 or older					
	Owners, in thousands			Owners as a percent of all persons age 65 or older		
	Total	Male	Female	Total	Male	Female
Interest-bearing assets:						
Savings or credit union accounts	14,668	6,088	8,580	63.1	63.2	63.0
Certificates of deposit	4,861	2,005	2,857	20.9	20.8	21.0
U.S. savings bonds	3,246	1,296	1,950	14.0	13.4	14.3
Corporate, municipal, or other government bonds	1,346	703	643	5.8	7.3	4.7
Personal loans or mortgages	593	285	308	2.5	3.0	2.3
Dividend-bearing assets: Stocks or mutual fund shares	4,299	1,841	2,458	18.5	19.1	18.0
Real assets:						
Houses, apartments, or condominiums, other than own home	1,406	705	702	6.0	7.3	5.2
Commercial or industrial property	229	123	106	1.0	1.3	.8
Farm property	1,002	484	519	4.3	5.0	3.8
Undeveloped land	672	307	366	2.9	3.2	2.7
Nonactive business interest:						
Nonfarm business	153	80	73	.7	.8	.5
Farm business	166	126	40	.7	1.3	.3
Any other assets	107	59	48	.5	.6	.4

Source: Wave 1 interview, 1979 research panel, income survey development program. Estimates based on preliminary Census Bureau weights which rely on 1970 census counts by age, race, and sex, adjusted forward to 1979.

Three points need to be stressed from this data. First, the percentage of older people with asset income in 1978 remained relatively consistent across age groups, i.e., those between 55 and 61 had relatively the same percentage of asset income as those age 65 and over.

Second, the distribution of asset income is very uneven. Older men have a substantially larger likelihood of receiving asset income than women, and substantially fewer black Americans report asset income than whites.

Third, 37 to 39 percent of the aged reported having no asset income whatsoever in 1978. And of those who did report asset income in that year, the annual median income reported was relatively low, i.e., half

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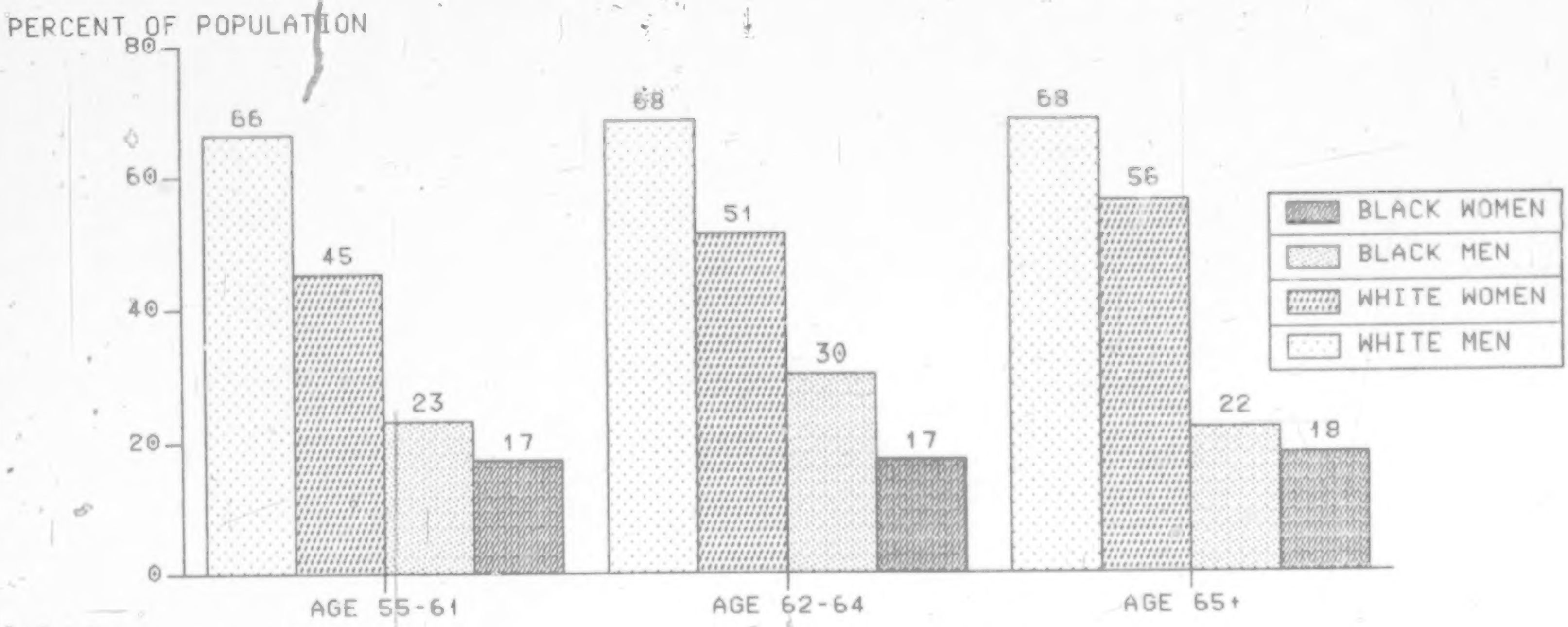
[2] For information purposes, preliminary data for early 1979 are also shown in a separate table based on the income survey development program.

PERCENT OF AGED WITH ASSET INCOME
BY AGE GROUP
1978



Source: "The Income and Resources of the Elderly in 1978," Social Security Bulletin, December 1981.

of the over-65 group with asset income had annual income above $940 a year, and half had asset income less than $940. Thirty-seven percent of the units age 65 and over with asset income received less than $500 a year, while 14 percent had $5,000 or more in annual income from assets.

3. Relative Importance of Asset Income for the Elderly

By and large, income from savings and other assets furnished a relatively small portion of the income of the elderly. In 1978, for example, only 19 percent of the total money income of the elderly came from asset income.

In view of these findings about the overall level of assets and the small amount of income they generate for the elderly, virtually all of the expert groups and national commissions that have studied retirement income in 1981 recommended the need for public policy to strengthen individual savings for retirement.

D. RECOMMENDATIONS OF ADVISORY GROUPS

1. President's Commission on Pension Policy

In its final report released in February 1981, the President's Commission on Pension Policy recommended the following steps to strengthen individual savings:

> Favorable tax treatment should be extended to employee contributions to pension plans. A refundable tax credit for low- and moderate-income people to encourage voluntary individual retirement savings and employee contributions to plans are recommended. At the time of tax filing, the employee would choose the higher of a tax deduction or a tax credit.

2. National Commission on Social Security

In its final report issued in March 1981, the National Commission on Social Security agreed that it should be the policy of the Federal Government to encourage individual saving for retirement.

> Again, the Commission regards private savings as an important part of the total income security of American families; it recommends a strengthening of the present individual retirement account (IRA) opportunities. Present law permits a maximum tax deductible contribution of $1.500 per year to a qualifying individual retirement account. The Commission believes this amount should be increased as a way to encourage savings.

3. Committee for Economic Development

In September 1981, the Committee for Economic Development—an independent, nonprofit, research, and educational organization of 200 business executives and educators—issued a report called "Reforming Retirement Policies." In it, the CED recommended the following strategy for increasing personal savings:

It is in society's interest to make increased individual savings for retirement a financially attractive and accessible goal. But changes in the tax law are necessary before a substantial number of current workers will be able and willing to increase their saving to any significant degree. Tax proposals to encourage saving generally deserve favorable consideration because they will reduce the current consumption bias in the Tax Code and contribute to a higher level of investment. Tax policies that directly encourage saving for retirement deserve the most emphasis of all. Accordingly, we give top priority in this area to the recommendation that persons covered by qualified pension plans be permitted to make tax-deferred contributions to either an IRA, a Keogh plan, or to a qualified pension plan.

E. 1981 LEGISLATIVE ACCOMPLISHMENTS

The Economic Recovery Tax Act (ERTA) of 1981 (Public Law 97–34) contained a number of important provisions designed to stimulate personal savings. In August 1981, the Special Committee on Aging published an information paper called "1981 Federal Income Tax Legislation: How It Affects Older Americans and Those Planning for Retirement."[3] The overall, 3-year, across-the-board reduction in tax rates will lower the marginal tax on each additional dollar of income earned and will therefore make saving more attractive because the after-tax return on each dollar saved is increased.

In addition to the reductions in tax rates, the 1981 tax law contained specific incentives to increase savings, such as the provisions allowing the so-called "all savers certificate" exempt from Federal (and many States) income taxes and the provisions providing for special reductions in the tax on interest income (effective 1985) and on stock dividends of public utilities (effective 1982–85). But the most important savings provisions of the ERTA, from the standpoint of individual retirement income, were the provisions expanding tax-sheltered contributions to IRA and Keogh accounts, and the intended expansion of employee stock ownership plans.

1. Individual Retirement Arrangements (IRA's)

The Employee Retirement Income Security Act of 1974 (ERISA) contained provisions (section 2002) enabling individuals to set up individual retirement arrangements (IRA's) to save for retirement. Very simply, if an IRA is created, money paid into the plan is deductible for Federal income tax purposes, and the earnings on the money paid into the plan are tax deferred. The funds set aside and the earnings therefrom are not taxed until they are distributed to the individual. Under current rules, distributions cannot be made before age 59½ or delayed beyond age 70½ without incurring penalties. Thus, distributions normally begin after retirement, when the individual is usually in a substantially lower tax bracket.

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[3] The Special Committee on Aging published, in addition, "Protecting Older Americans Against Overpayment of Federal Income Taxes," December 1981.

The idea of providing tax incentives to encourage individuals to save for their own retirement can be traced to a message to the Congress from President Nixon in 1971. It was pointed out that many individuals were not covered by private pension plans, on the one hand, nor furnished tax incentives to save for their own retirement as available for the self-employed.[4] To fill that gap, the President recommended that employees who wish to save independently for their retirement or to supplement employer-financed pensions should be allowed to deduct for tax purposes amounts set aside for retirement.

The President proposed in 1971 that contributions to retirement savings programs by individuals be tax deductible up to the level of $1,500 per year or 20 percent of income, whichever was less. This proposed deduction would have been available to those already covered by employer-financed plans, but in this case, the upper limit of $1,500 would have been reduced to reflect pension plan contributions made by the employer.

Congress appreciated the complexities involved in determining the exact amount of money that an employer contributed on behalf of each individual in a defined benefit pension plan. It was also concerned with the revenue losses that such a program would cause and the newness of the program itself. Therefore, in passing the ERISA legislation in 1974, Congress limited the tax incentives to individuals not covered by an employer-sponsored pension program since they generally would be more in need of supplemental retirement income. These individuals were permitted to contribute to an individual retirement arrangement (IRA), the lesser of 15 percent of compensation or $1,500. The assets of an IRA could be invested in a trusteed or custodial account with a bank, savings and loan, or credit union, in mutual funds, or in an annuity contract issued by an insurance company, or in Government retirement bonds. This deduction for retirement savings was effective for taxable years beginning after December 31, 1974. Basically, the IRA provisions, as outlined above, remained the same until the recent changes in the Economic Recovery Tax Act became effective January 1, 1982.

How many people took advantage of IRA's? Unfortunately, current data are not available on this subject, although we do have data that are several years old showing the estimated utilization of IRA's in 1977, and there are more recent IRS data showing the number of tax returns each year which claimed deductions for an IRA.

In 1977, of approximately 55 million taxpayers eligible to establish an IRA, only 2.5 million IRA's were actually established, i.e., only 4.6 percent of those eligible actually utilized the arrangement. The detailed utilization rates according to income class are shown in the following table.

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[4] See discussion of Keogh plans below.

TABLE 7.—INDIVIDUAL RETIREMENT ACCOUNTS, 1977: ESTIMATE OF UTILIZATION RATE BY INCOME CLASS

	Number of returns with salaries and wages (in millions) [1]	Estimated number of taxpayers with salaries and wages (in millions) [2]	Estimated number of taxpayers eligible to use IRA's (in millions) [3]	Estimated number of IRA's (percent) [4]	Utilization rates (percent)
Adjusted gross income class:					
0 to $5,000	20.1	20.7	17.6	0.04	0.2
$5,000 to $10,000	16.5	19.0	13.3	.18	1.4
$10,000 to $15,000	13.0	17.5	10.5	.35	3.3
$15,000 to $20,000	10.7	16.3	7.4	.40	5.4
$20,000 to $50,000	15.8	24.9	6.2	1.35	21.8
$50,000 and over	1.1	1.4	.4	.21	52.5
Total	77.2	99.8	55.4	2.53	4.6

[1] Unpublished data from 1977 tax returns.

[2] Includes 2 spouses when both have salaries and wages.

[3] Excludes persons covered by public or private retirement systems.

[4] Allows for 2 individual retirement accounts on some returns. Based on number of forms 5239 filed. Some of these accounts received no deductible contributions during 1977.

Source: Office of the Secretary of the Treasury, Office of Tax Analysis, Mar. 27, 1979.

A second table shows the number of Federal income tax returns claiming deductions for contributions to an individual retirement arrangement:

TABLE 8.—IRA TAX DEDUCTIONS

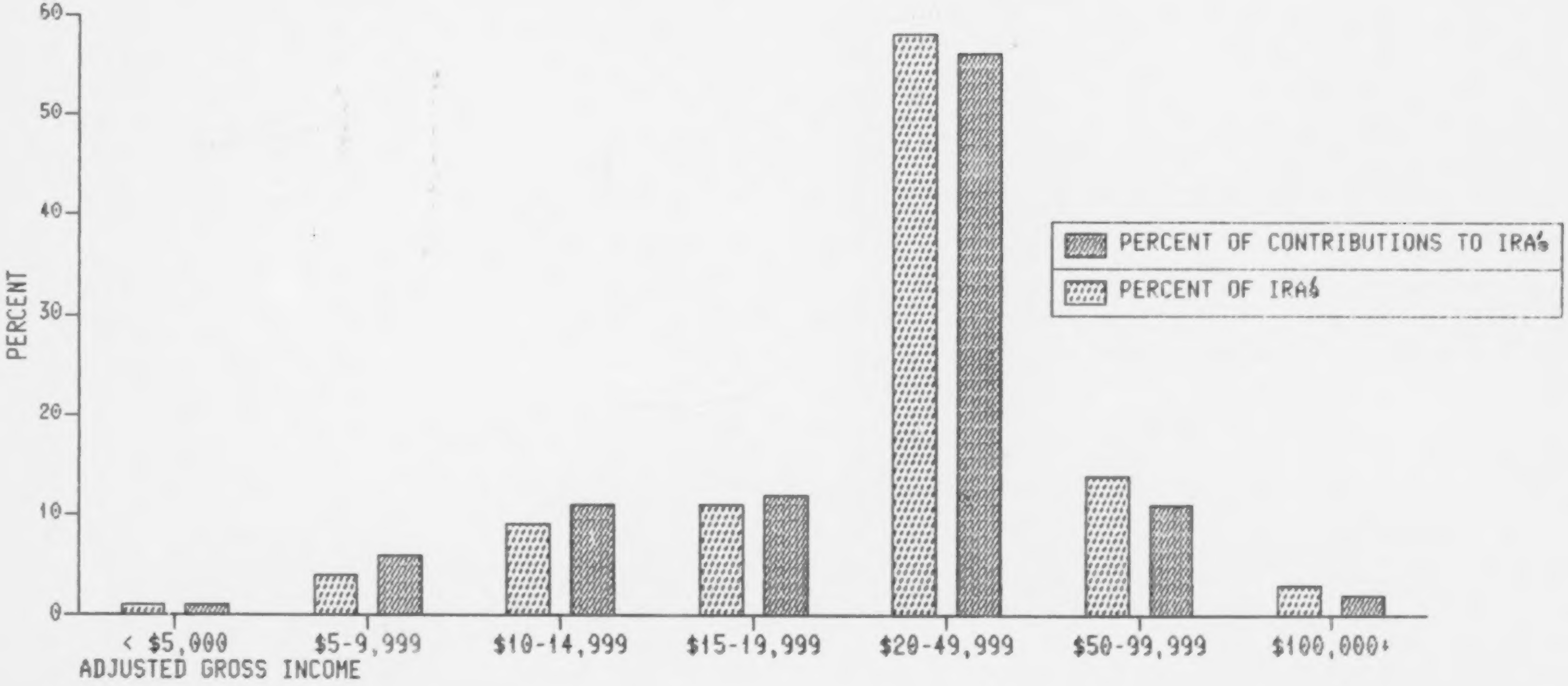
Year	Federal tax returns claiming IRA deductions (in millions)	Amount of IRA contributions (in billions)
1975	1.2	$1.6
1976	1.6	2.0
1977	2.0	2.5
1978	2.4	3.0
1979	2.5	3.2

Source: U.S. Internal Revenue Service, "Statistics of Income," for the tax years in question.

It is worth emphasizing that table 8 does not tell us the total number of IRA's outstanding, because it does not show IRA's to which contributions were not made in that tax year. Still, the trend since 1975 points to considerable expansion. The number of returns showing IRA deductions doubled, as did the total contributions to those plans. This expansion is all the more significant because the tax deductible amounts to IRA's were not raised during that period, but held at the 1974 level of $1,500 or the lesser of 15 percent of compensation.

Despite this expansion in the number of returns showing IRA deductions and in the amounts contributed to IRA's, the establishment of tax-sheltered IRA's has been particularly strong among those with adjusted gross income of $20,000 to $50,000, as the following chart shows for 1979.

DISTRIBUTION OF IRA's AND CONTRIBUTIONS TO IRA's
BY AMOUNT OF ADJUSTED GROSS INCOME
1979



Source: Based on data on 1979 individual tax returns, Internal Revenue Service, SOI Bulletin, summer 1981.

A. IRA'S AND THE ECONOMIC RECOVERY TAX ACT OF 1981 (ERTA)

In 1981, Congress heeded the recommendations of the various advisory groups about the need to strengthen personal savings for retirement income and made major changes in the IRA provisions, both expanding the amounts that can be contributed to IRA's and expanding the eligibility for IRA's far beyond the eligibility rules laid down in 1974. (To help answer consumer questions, the Special Committee on Aging published "A Guide to Individual Retirement Accounts," in December 1981.)

Specifically, the Senate Finance Committee gave the following reasons in support of the 1981 changes:[5]

> The committee is concerned that the resources available to individuals who retire are often not adequate to avoid a substantial decrease from preretirement living standards. The committee believes that retirement savings by individuals can make an important contribution toward maintaining preretirement living standards and that the present level of individual savings is too often inadequate for this purpose. The committee understands that personal savings of individuals have recently declined in relation to personal disposable income (i.e., personal income after personal tax payments). During the years 1973 through 1975, the personal saving rate was no more than 8.6 percent. It declined to 5.2 percent in 1978 and 1979, and rose only slightly in 1980 to 5.6 percent. (These savings estimates include employer payments to private pension funds.)
>
> The committee has found that the present rules providing tax-favored treatment for individual retirement savings have become too restrictive in view of recent rates of inflation and because they do not sufficiently promote individual savings by employees who participate in employer-sponsored plans.
>
> The committee bill is designed to promote greater retirement security by increasing the amount which individuals can set aside for retirement in an IRA, and by extending IRA eligibility to individuals who participate in employer-sponsored plans. The bill also extends additional tax-favored treatment to voluntary employee contributions to employer-sponsored plans so that plan participants can take advantage of systematic payroll deductions to accumulate tax-favored retirement savings.

Before the new tax law, deductions to an individual retirement account (IRA) were limited to the lesser of 15 percent of compensation or $1,500. Under the new law, for taxable years after December 31, 1981, the limit on contributions is the lesser of 100 percent of compensation or $2,000.

Further, the new law allows workers covered by a company pension plan to participate in IRA accounts. Such workers are excluded from IRA's in 1981. For taxable years after December 31, 1981, the $2,000 limit on contributions will apply to contributions the employee may make to an IRA or as a voluntary contribution to the company plan. Such voluntary contributions and earnings from the voluntary contributions will generally be subject to IRA-type rules. Note that mandatory employee contributions to a company plan are not tax deductible, under the new law, although various experts have testified in 1981 congressional hearings that it would be a good idea to make mandatory employee contributions also deductible. In 1981, such plans were not made deductible because: (1) The revenue loss would have been substantial, and (2) it was felt that making mandatory contributions tax deductible would not have as much as an effect in creating *new* savings as would the deductibility of voluntary contributions.

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[5] U.S. Senate, Committee on Finance, Rept. No. 97-144.

B. IRA'S FOR NONEMPLOYED SPOUSES

The pre-ERTA IRA provisions allowed a worker to set up an IRA for a nonemployed spouse. The maximum combined contribution allowed under prior law was $1,750, and the contributions had to be in equal amounts for each spouse. As a result of the new tax law, the limit on contributions to a spousal IRA, after December 31, 1981, is $2,250 instead of $1,750. Also, the new law deletes the previous requirement that contributions under a spousal IRA be equally divided between the spouses. The new law has no such rules, except that no more than $2,000 can be contributed to the account of either spouse.

Prior law forbade the nonearning spouse from making contributions to a spousal IRA after a divorce. Without wage or salary income, that individual could not continue making contributions to his or her one-half share of a spousal IRA.

The new law, effective January 1, 1982, allows a divorced spouse to continue making contributions to a spousal IRA under certain conditions. The individual's former spouse must have established the spousal IRA at least 5 years before the divorce, and the former spouse must have contributed to the spousal IRA for at least 3 of the 5 years preceding the divorce. If those requirements are met, then the divorced spouse may continue to make contributions to the spousal IRA up to a maximum of the lesser of $1,125, or the divorced spouse's total compensation and alimony includable in gross income.

C. EMPLOYER-SPONSORED IRA'S OR SIMPLIFIED EMPLOYEE PENSIONS

The Revenue Act of 1978 (Public Law 95–600) provided for an increased deduction for contributions to an employee's individual retirement plan by the employer under an employer-sponsored IRA called a simplified employee pension.

If an individual retirement account or individual retirement annuity (IRA) qualifies as a simplified employee pension (SEP), both the employee and the employer may make contributions to the employee's IRA. Before the Economic Recovery Tax Act of 1981, employer contributions for an employee under a SEP were includable in the gross income of the employee and the employee was allowed a deduction for the employer contribution, limited to the lesser of 15 percent of compensation or $7,500. With respect to employee contributions, the limit was $1,500 (or 15 percent of compensation, if less) reduced by the amount of deductible employer contributions for that year.

The ERTA raised the limit on employee contributions to $2,000, and raised the ceiling on employer contributions from 15 percent or $7,500, to 15 percent of compensation or $15,000, whichever is lower, effective January 1, 1982.

2. Keogh Accounts

As tax-qualified pension plans spread, many small business people found that their employees could benefit by being included in tax-qualified pension plans, but the employers could not. Nor could self-employed individuals without employees. Further, where two people operated similar businesses and realized similar profits, but if one was a sole proprietor and the other was incorporated, the corporate operator could benefit from a pension plan even though he was the only employee of the corporation, but the sole proprietor could not.

Efforts were made to remedy this situation, and various bills were introduced in Congress. The number H.R. 10 was assigned to an early bill and was retained in succeeding bills until enactment of the Self-Employed Individuals Tax Retirement Act of 1962. Today these retirement plans are commonly known as H.R. 10 plans or Keogh plans (named for Representative Eugene J. Keogh of New York who sponsored the legislation).

The purpose of the Self-Employed Individuals Tax Retirement Act of 1962 was to enable self-employed individuals to participate in a tax-qualified retirement plan if they chose to do so, in much the same way as employees could. Various restrictions and limitations, however, were included in this 1962 legislation.

Contributions on behalf of owner-employees were permitted to the lesser of 10 percent of earned income or $2,500—but the allowable tax deduction for any self-employed individual (whether an owner-employee or not) was limited to one-half of the contribution, up to a maximum of $1,250 in a taxable year. The provision reducing the allowable deduction to one-half of the contribution was repealed by Public Law 89–909, effective for taxable years beginning after December 31, 1967. ERISA made additional liberalizations in 1974.

Prior to ERISA's passage in 1974, self-employed people who established a Keogh plan were limited to a contribution of $2,500 per year, while there was no limit imposed on corporate plans. It was found that this led to otherwise unnecessary incorporation by self-employed persons solely for the purpose of obtaining the tax benefits for retirement savings. To achieve greater equity vis-a-vis corporate plans, Congress, in passing ERISA, increased the annual limit for deductible contributions to Keogh plans to 15 percent of earned income or $7,500, whichever was lower, and it also provided a new minimum deduction based on the lesser of 100 percent of earned income or $750. An overall limit of $100,000, however, was set on earned income that could be taken into account under a plan that includes self-employed individuals.

The following table shows the number of Federal income tax returns from 1977 through 1979, which reported payments to a self-employed retirement Keogh plan, and the amounts contributed.

TABLE 9.—KEOGH TAX DEDUCTIONS

Year	Number of tax returns	Amount of contributions (in billions)
1977	577,000	$1.8
1978	627,000	2.0
1979	590,000	2.0

Source: U.S. Internal Revenue Service, "Statistics of Income" for the tax years in question.

In general, under a tax-qualified plan, loans to participants are permitted if certain requirements are met. However, H.R. 10 or Keogh plans were not permitted to lend to an owner-employee. If an owner-employee participating in an H.R. 10 plan borrowed from the plan, or used an interest in the plan as security for a loan, the amount of the loan or security interest was treated as a plan distribution, and the usual tax rules for distributions applied.

1981 TAX LAW CHANGES IN KEOGH ACCOUNTS

In 1981, Congress reviewed the Keogh provisions at the same time that it expanded eligibility for IRA's and decided there were reasons for a change, as stated in the Senate Report No. 97-144:

> The maximum deductible contribution for H.R. 10 plans has not been revised since 1974. The committee believes this limit should be increased as an adjustment for inflation and to make these plans more attractive.
>
> The committee also believes that current provisions permitting partners who are not owner-employees to borrow against their interest in an H.R. 10 plan diminish retirement savings. Accordingly, to promote long-term savings for retirement, the committee believes the current treatment of loans and pledges should be applied to all partners.

The new law retains the present limit of 15 percent of compensation as under prior law, but, effective with taxable years after December 31, 1981, it increases the maximum deduction for employer contributions to a defined contribution Keogh plan, to a defined contribution plan maintained by a subchapter S corporation, or to a simplified employee pension (SEP). The maximum deduction is increased from $7,500 to $15,000.

To provide a similar increase in the level of benefits permitted under a defined benefit Keogh or subchapter S corporation plan, the compensation taken into account in determining the permitted annual benefit accruals is increased from $50,000 to $100,000.

The new law also increases the amount of compensation which may be taken into account to determine contributions to a Keogh plan, to a subchapter S plan, or to a SEP. Under prior law, only the first $100,000 of compensation may be taken into account under a defined contribution H.R. 10 plan, a defined contribution plan of a subchapter S corporation, or a SEP, for purposes of testing the plan for discrimination and applying limits on contributions. Under the new law, the includable compensation limit is increased from $100,000 to $200,000. However, if annual compensation in excess of $100,000 is taken into account, the rate of employer contributions for a plan participant who is a common-law employee cannot be less than the equivalent of 7½ percent of that participant's compensation.

The new law also extends to all partners the present-law rule under which a loan from a Keogh plan to an owner-employee or his use of an interest in the plan as security for a loan is treated as a distribution.

In addition, the bill permits the penalty-free correction of an excess contribution to a Keogh plan if the excess is withdrawn before the due date of the income tax return. It also permits early withdrawals from a terminated Keogh plan by an owner-employee without regard to the 5-year ban on Keogh plan contributions for the owner-employee.

3. Employee Stock Ownership Plans

Since 1974, the U.S. Congress has by legislation created two programs designed to give employees the chance to acquire a stock ownership in their employer.[6] Under ERISA, Congress first defined the employee stock ownership plan, or "ESOP" as it is usually called. In the Tax Reduction Act of 1975, and the Tax Reform Act of 1976, Congress implemented and then expanded a different form of employee ownership plan, commonly called a "TRASOP," and properly known today as the "Tax Credit Employee Stock Ownership Plan."

ESOP and TRASOP provide stock ownership for each employee usually without requiring the employee to spend any of his or her own money. Although some ESOP's and TRASOP's permit or require employees to put money into the ESOP or TRASOP, most provide that the employer will make all necessary ESOP and TRASOP payments. Both ESOP and TRASOP are tax "qualified" employee benefit plans written in such a way that they satisfy the requirements of the Internal Revenue Code. As a "qualified plan," the ESOP or TRASOP is required to be operated for the "exclusive benefit" of participating employees (and their beneficiaries).

The employer stock is acquired and held for the benefit of employees. The stock, which is held by a tax-exempt trust under the plan, may be acquired through direct employer contributions of stock or by using moneys borrowed by the trust. Under the usual rules applicable to tax-qualifed plans, an employee's benefits under an ESOP are generally not taxed until they are distributed or made available.

Most conventional ESOP plans came about as the employer contributed company stock to the trust. But a smaller number of ESOP's are leveraged, i.e., to acquire stock of an employer for the benefit of employees, an ESOP may borrow money from a bank or other lender. The stock is then bought directly from the employer or from shareholders. When the ESOP borrows the money to purchase the stock, the employer guarantees to the lender that the ESOP will repay the loan. Employees are never required to assume any obligation for the repayment of the money borrowed by the ESOP. The employer is required to make annual payments to the ESOP in an amount at least equal to the amount the ESOP must pay on the money it borrowed. These amounts are then paid by the ESOP to the lender each year. The employer is also permitted to make additional payments of cash or stock to the ESOP each year. The employer gets a tax deduction for all payments to the ESOP, up to a maximum limitation established by the Internal Revenue Code. This tax deduction is available for the required employer payments to service the loan and any additional payments, and the tax effect is to reduce the annual cost of the ESOP to the employer. Cash put into the ESOP by the employer will be used primarily to purchase employer stock. In addition, this cash may be invested temporarily in savings accounts or certain other permitted investments.

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[6] See U.S. Senate, Select Committee on Small Business, "The Role of the Federal Government in Employee Ownership of Business," U.S. Government Printing Office, Dec. 18, 1980.

An employer which adopts a TRASOP may claim an additional tax credit against Federal income taxes. An employer is entitled to an additional percentage point of investment tax credits (i.e., 11 percent rather than 10 percent of "qualified" capital investment) if the employer contributed an amount equal to the full additional credit to a tax credit ESOP. In addition to the 1 percent credit, up to one-half percent of extra investment tax credit has been allowed where an employer contributes the extra amount to the TRASOP, if the employer's extra contribution is matched by employee contributions. In 1978, the rules allowing employers to claim this additional investment tax credit for ESOP contributions were extended to December 31, 1983.

TRASOP's have been found primarily in large, capital-intensive industries, for it is these companies which have large enough investments and have few enough employees, so that the 1 or 1.5 percent of investment tax credit amounts to a significant amount per employee.

Although a precise count is not available, an estimated 5,000 ESOP and TRASOP plans are in existence today.[7] The following table, based on tabulations of IRS data by the Employee Benefit Research Institute, shows the number of *new* TRASOP and ESOP plans which qualified under the Internal Revenue Code in 1976–81, and the number of participants in such plans. In addition, the new plans and participants are shown as a percent of all new, IRS-qualified employee benefit plans (defined contribution and defined benefit plans), and their participants. These data indicate that after an initial surge once the new tax legislation was passed in 1975–78, the formation of new ESOP and TRASOP plans, though still important, has fallen off relative to past levels and relative to their share of total employee benefit plans newly qualified for IRS status.

Over the years, Congress has shown steady and increasing support for the concept of employee stock ownership plans. Employee ownership has been promoted primarily as a means to increase worker motivation and productivity by giving employees a clear stake in their companies. It also gives employees additional assets to be used for retirement or other purposes. In what may become a precedent-setting action, Congress required in 1980, that the Chrysler Corp., as a condition of Federal assistance, create a $162.5 million employee stock ownership plan, which should provide Chrysler employees with 15 to 20 percent of the total voting stock in the company.

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[7] EBRI estimates that 796 TRASOP plans and 3,839 ESOP plans were in existence as of June 1981.

TABLE 10.—PLAN QUALIFICATIONS AND PARTICIPATION

Year	TRASOP/ESOP		Total new pension plans	
	Plans	Participation	Plans	Participation
1976:				
Number	85	244,488	21,486	915,170
Percent	0.4	26.7		
1977:				
Number	132	1,264,515	35,416	4,954,924
Percent	0.4	25.5		
1978:				
Number	196	206,237	65,684	3,880,133
Percent	0.3	5.3		
1979:				
Number	286	173,112	56,877	2,022,657
Percent	0.5	8.6		
1980:				
Number	51	18,454	69,342	3,781,565
Percent	0.1	0.5		
1981 (Jan. 1 to June 30):				
Number	52	19,294	31,478	2,298,052
Percent	0.2	0.8		

Source: EBRI tabulations of IRS data.

Given this congressional support for the ESOP concept, Congress reviewed the plans during the consideration of the Economic Recovery Tax Act of 1981, and found reasons to make changes. Specifically, the Senate Report 97–144 listed the following reasons for change:

> The committee believes that experience in the operation of the tax laws applicable to employee stock ownership plans indicates that several changes are appropriate. The committee is concerned that the investment-based tax credit for ESOP's has not provided a sufficient incentive for the establishment of ESOP's by labor-intensive corporations. The committee believes that a permanent payroll-based tax credit for employer contributions to a tax credit ESOP will provide a more effective incentive than the additional investment tax credit currently allowed. In addition, the rules in present law which limit the ability of a leveraged ESOP to acquire employer securities with the proceeds of a loan to the plan have proved too restrictive and have prevented the use of leveraged ESOP's as a technique of corporate finance. Certain of the provisions governing distributions to participants under a tax credit ESOP or leveraged ESOP have proved burdensome and, in some cases, have precluded an employer from establishing an employee stock ownership plan.

The Economic Recovery Tax Act of 1981 terminates, after 1982, the investment-based tax credit for ESOP, and replaces it with a payroll-based tax credit. The payroll-based credit is allowed for wages paid in calendar years 1983 through 1987. For calendar years 1983 and 1984, the credit is limited to 0.5 percent of compensation paid to employees under the plan, and to 0.75 percent of such compensation for 1985, 1986, and 1987. Although this provision will not have any direct effect on taxes paid by individuals, the change from an investment tax credit to a payroll-based credit is intended to encourage the spread of ESOP plans among labor-intensive firms, which have derived little tax benefit from the investment-based credit.

The new law also makes increases in the deductible contributions to the so-called "leveraged ESOP's" which borrow money to purchase the employer's stock. Under a leveraged ESOP, the employer is allowed a deduction, within limits, for contributions to the plan. These contributions may be applied by the plan to service the loan. Under prior law, the deduction allowed an employer for contributions to a profit-sharing or stock bonus plan (including a leveraged ESOP) generally is limited to 15 percent of the compensation of all employees under the plan. In addition, prior law provides that the annual contributions and other additions credited to a participant's account under a qualified defined contribution plan (including a leveraged ESOP) generally cannot exceed the lesser of $41,500 for 1981 ($25,000 adjusted for inflation since 1974), or 25 percent of the participation's compensation. In the case of certain ESOP's, the dollar limit is doubled.

The new law increases the limit on ESOP deductions from 15 percent of aggregate employee compensation, to 25 percent of compensation where the contributions are applied by the plan to make principal payments on a loan incurred to purchase employer stock. An unlimited deduction is allowed the employer for contributions applied to pay interest on the loan. The new law also removes contributions to pay loan interest and forfeitures of fully leveraged ESOP stock from the limit on contributions to any participant's account, provided the contributions to officers, shareholders, and employees whose compensation exceeds $83,000 do not exceed specified limits.

F. PROGNOSIS ON SAVINGS FOR RETIREMENT

As far as tax policy for retirement savings goes, 1981 really marked a watershed. As we have seen, Congress capitalized upon the experience with tax-sheltered plans before and after the passage of ERISA, and took major steps to strengthen the savings of individuals for retirement, in line with recommendations by various advisory groups.

The IRA expansion of eligibility, in particular, represents a major potential for increased savings of individuals, and for the economy. Just how many people will establish IRA's is, of course, open to debate. But the financial institutions offering these plans are anticipating a strong public reaction, and they are actively promoting the various possibilities they offer for IRA-type investments. Moreover, according to the Employee Benefit Research Institute, roughly 49 million people will become newly eligible for IRA's, and 25 million of these represent good IRA prospects, i.e., they have the income, education, and work characteristics for which IRA participation has been particularly high in the past. EBRI estimates that if 25 to 50 percent of the new eligibles establish IRA's, the potential annual income set aside could be as high as $20 billion.[8]

Others have pointed out, however, that the IRA's will certainly not be attractive for low-income individuals, given the pattern of participation in the past, and the especially large tax value IRA's provide for upper income workers in the $20,000 to $50,000 range. This is probably correct. So the debate about savings in public policy in the future will probably continue to consider whether it is appropriate to encourage savings by low-income workers through special tax measures: For example, the President's Commission on Pension Policy recommended the use of the tax credit as opposed to a tax deduction.

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[8] Dallas L. Salisbury and Susan E. Click, "IRA's: An Expanding Opportunity for Private Retirement Income Provision," Employee Benefit Research Institute, 1981.

Tax credits affect all taxpayers equally—dollar for dollar—rich or poor, since their value does not fluctuate depending on the taxpayer's marginal tax bracket. Tax credits are subtracted from a taxpayer's tax liability, whereas tax deductions are subtracted from gross income in determining taxable income before the tax is computed. The net result is that for each dollar of tax credit a taxpayer's tax liability is reduced $1. On the other hand, IRA deductions reduce a taxpayer's liability but only by the percentage of the deduction; the percentage is dependent on the marginal tax bracket of the taxpayer—the higher income people have a higher marginal tax bracket and thereby benefit relatively more on their taxes than lower income people.

Without special incentives for low-income people, IRA's will increase the proportion of the elderly with asset income and increase the amount of that income, but they won't contribute much to eliminating poverty among the elderly.

Further debate will occur on whether the IRA and Keogh deductible limits should be raised or even indexed to grow with the Consumer Price Index. The contribution limits were held constant in 1975–81. If the IRA limits were indexed the way contributions to corporate defined contribution plans are indexed, IRA limits would have increased by about 66 percent to nearly $2,500 a year. Undoubtedly, to the extent the new program is successful in generating new retirement savings, the higher participation will generate greater pressure on Congress to revise the contribution limits upward in years ahead.

Others are warning that the IRA changes may have some side effects on the U.S. private pension system. Some analysts foresee that the IRA availability will encourage employees to leave company thrift or savings plans and defined contribution plans. If lower paid people drop out of the thrift plans in order to establish IRA's, the thrift plans could potentially risk losing IRS tax-qualified status, because the IRS rules were set up to discourage companies from setting up plans which benefit only higher level employees.

Furthermore, IRA's may become more attractive than employee plans because employees can control IRA investments personally, and employees who change jobs frequently will also prefer to establish their own account.

Others have voiced concern about the IRA impact on defined contribution plans, which constitute three out of four pension plans. Because mandatory contributions by employees to these plans are not tax deductible but employee contributions to IRA's are tax deductible, that could encourage employees not to participate in defined contribution plans. Experts are predicting that adjustments in the employee contributions to defined contribution plans will be necessary if they are to compete effectively with IRA's. We may see efforts by employers to match one-half of the employee contributions to an IRA or to reduce the employee contribution to the defined contribution plan and increase the employer's matching contribution.

Future debate will also evaluate the advisability of making mandatory employee contributions to company plans tax deductible. This was considered but not accepted during consideration of the Economic Recovery Tax Act of 1981, largely because the revenue losses would have been substantial and the net increase in savings was not estimated to be as large. Nevertheless, this issue of tax deductible mandatory contributions will still be considered. It has been proposed, for example, in S. 1541, the Retirement Income Incentives and Administrative Simplification Act of 1981, and recommended by experts who testified on that bill before the Labor Subcommittee in November 1981, as well as by other groups testifying on social security before the Joint Economic Committee on September 22–23, 1981.

The new tax incentives for ESOP's are also expected to encourage expansion of that savings vehicle. Supporters of the provision argue that the number of ESOP plans—particularly the TRASOP plans—could double by 1984, because the payroll-based tax credit will make TRASOP's attractive for new sectors of the economy, and because the increased deductions for principal payments on leveraged ESOP's—and the unlimited deduction for interest payments—will make those plans more attractive to employers. The effect of the latter changes wil be to improve the quality of the plans and the size of the stock ownership by employees, as well as to encourage new plans.

Others contend that the changed TRASOP tax credit will expand the number of plans but won't really increase employee ownership of the firm by much—or increase retirement savings by much—because the limits on the tax credit between 1983 and 1987 are a cumulative 3.25 percent of total compensation—which isn't much savings.

Some issues about ESOP promotion still need to be resolved, particularly the delicate question of determining the market value of the shares of closely held companies. Leveraged ESOP's have drawn concern because of a 1980 General Accounting Office (GAO) report [9] which looked at 16 ESOP's, 3 of which were public companies, and 13 of which were closely held concerns. The study found no problems with the publicly held companies, but within the group of closely held companies, GAO found indications of overvalued stock, a lack of market in which to sell the shares, and insufficient voting rights for plan members.

Still, the ESOP concept is viewed positively by Congress, and the concept is often applauded by employees as a chance for a greater share in their company's fortune and hailed by employers as an innovative way of financing the company's expansion. If anything, one might anticipate greater improvements in the ESOP legislation and continued popularity with employers and employees in the years ahead. Nevertheless, because the value of the shares of company stock varies so dramatically with the fortunes of the company, it can never be expected that ESOP plans will provide the major portion of total retirement income, although they will undoubtedly play a growing role in supplementing social security and other employee benefits.

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[9] U.S. General Accounting Office, "Employee Stock Ownership Plans: Who Benefits Most in Closely Held Companies," June 20, 1980.

By far the most important factors that could increase overall personal savings in the future are the broad reductions in individual tax rates and the indexing of the tax system in 1985 to prevent individuals from falling into higher tax brackets. On this impact of the tax changes, the jury is still out.

Because of the estimated changes in the population's age structure, however, analysis suggests there will be a gradual increase in personal savings over the next 40 to 50 years.[10] As the baby boom generation enters middle age in the 1980's, that demographic change should tend to increase savings because middle-aged people tend to save more. This positive demographic trend is projected to continue through the first quarter of the 21st century, but as the baby boom generation reaches advanced age toward the middle of the next century, personal saving rates could decline because of the lower saving rate of the large, over 65 group. Such forecasts, however, are based on savings surveys that are 10 to 20 years old. There also have been substantial policy changes since those surveys were conducted—namely the expansion of social security and private pensions of the elderly.

In conclusion, the data on savings are not satisfactory. Many questions remain unanswered. But based on what we do know, because of the tax changes and the demographic changes, savings could well play a larger role in supplying income to the elderly in the future, although probably not for the low-income elderly.

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[10] Paul Wachtel, op. cit.

Part II

LOW-INCOME ASSISTANCE PROGRAMS

Despite the historical emphasis on providing a reliable source of retirement income through social security, private pensions, and savings, public policy has long recognized the need for programs to supplement the basic incomes of those who do not qualify for earnings-related benefits or whose income from all sources is insufficient to maintain a minimum standard of living. Assistance programs have, therefore, played a vital role in assuring a minimum level of income to the poor and to low-income elderly.

Four basic categories of assistance programs play an especially important role in providing income support to the needy aged—supplemental security income (SSI), food stamps, low-income energy assistance, and assisted housing. Congressional action in 1981 generally focused on reducing the overall size of these Federal income assistance programs. SSI was the least affected by cuts since it was only the subject of certain technical changes which were primarily designed to improve the administration of the program; in comparison to total expenditures, relatively small reductions were made. With respect to food stamps, energy assistance, and housing assistance, more far reaching program reductions were agreed to by the Congress. However, sensitivity to the special needs of the elderly reduced the severity of the impact of these overall budget cuts on them. In the aggregate, the relative size of the budget cuts affecting the elderly was far less than those felt by other Americans utilizing these programs and those realized elsewhere in the budget for nonentitlement domestic social programs.

Although all of these programs are targeted to assist roughly the same group of low-income families, including the almost 4 million persons over 65 whose incomes fall below the poverty level, the participation of the elderly poor is very uneven. Relatively little data exist on the extent of overlap among tnese programs, although the figures from the 1980 census reveal very poor participation and little overlap.

Of the most vulnerable population, those age 65 and over whose family income is below the poverty level, more than half received no benefits from any of six major assistance programs. Roughly 18 percent participated in only one program; 13.1 percent participated in two programs, 14.2 percent in three, and only 3.3 percent in four programs.

NUMBER OF SELECTED INCOME-TESTED BENEFITS[1] RECEIVED BY THE AGED BY POVERTY STATUS:[2] 1980

Number of selected income-tested benefits	Age 65 and over							
			Below poverty level		Less than 125 percent of poverty level		125 percent of poverty level and above	
	Total	Percent	Total	Percent	Total	Percent	Total	Percent
Total	24, 685, 673	100. 0	3, 871, 051	100. 0	6, 346, 410	100. 0	18, 339, 263	100. 0
None	20, 297, 324	82. 2	1, 991, 698	51. 5	3, 733, 336	58. 8	16, 563, 988	90. 3
1	2, 304, 366	9. 3	691, 552	17. 9	1, 098, 044	17. 3	1, 206, 322	6. 6
2	1, 131, 603	4. 6	508, 652	13. 1	711, 378	11. 2	420, 225	2. 3
3	795, 864	3. 2	550, 997	14. 2	656, 191	10. 3	139, 673	. 8
4	156, 517	. 6	128, 151	3. 3	147, 461	2. 3	9, 055	0

[1] Income-tested benefits include: Federal SSI, medicaid, food stamps, public housing, public rent subsidy, and AFDC.

[2] Census (Orshansky) poverty index.

Note.—Table prepared by CRS. Figures are based upon the resident noninstitutionalized civilian population. and the noncivilian population who were not living in military barracks. Figures are subject to sampling error. Cell counts greater than 75,000 have approximately a 95 percent chance of being accurate within 20 percent. Cells with lower counts will have less accuracy.

Source: March 1981 current population survey (CPS).

Clearly the challenge for public policy rests with the fact that these programs miss fully half of the target population, while they may offer substantial cumulative assistance to fewer than one out of five low-income elderly with benefits from three or four programs.

Chapter 6

SUPPLEMENTAL SECURITY INCOME (SSI)

Three changes occurred in the supplemental security income (SSI) program during 1981. Beginning February 28, 1981, as the result of legislation (Public Law 96-611) signed into law by President Carter in December 1980, a new "transfer of assets" rule took effect which provides penalties for applicants for SSI and medicaid who transfer an asset for less than fair market value.

The Omnibus Budget Reconciliation Act of 1981 contained two revisions to the SSI program. The first changed the accounting period used for calculating benefits by basing benefits on actual income received for the previous month (retrospective accounting) rather than on anticipated income of the future quarter (prospective accounting).

The second change involved Federal funding for reimbursement of rehabilitative services. The new rule permits Federal reimbursement to State vocational rehabilitation agencies only for "rehabilitated" SSI recipients who succeed in performing substantial gainful activity (now defined as earning $300 a month) for a continuous period of 9 months.

Two national advisory groups, the President's Commission on Pension Policy, and the National Commission on Social Security, issued final reports concluding that present Federal SSI benefit levels are too low and recommending changes to liberalize the program.

A. OVERVIEW

Enacted in 1972 as title XVI of the Social Security Act, the supplemental security income (SSI) program is designed to provide a floor of income for aged, blind, and disabled people who have little or no income and resources.

The SSI program was implemented in 1974, and replaced three separate State-operated programs which had provided aid to the aged, blind, and disabled for almost 40 years with Federal financial assistance.

By transferring recipients to the Federal rolls, establishing uniform income limits and standardized eligibility rules, the Congress expected the new program to help eradicate the "welfare" stigma that was associated with the previous programs.

The SSI program is administered by the Social Security Administration and is funded from general tax revenues.

As of August 1981, 4 million people received federally administered SSI payments—2.2 million disabled, 1.7 million aged, and 0.07 million blind. Sixty-five percent of the recipients were women; 57 percent were age 65 or over; and 16 percent were 80 or older.

For the period July 1981 to June 1982, the maximum monthly SSI benefit is $264.70 for a single individual, and $397 for a couple, compared with $238 and $357 for the prior year. Benefit levels are increased automatically each year to reflect the increase in the consumer price index (CPI), if the CPI rises by 3 percent or more during a specified 1-year period. The method is the same one used to increase social security benefits. The July 1981 increase amounted to 11.2 percent.

The law requires a one-third benefit reduction for those who live in another person's household and who receive support and maintenance from that person or persons.

States are encouraged to voluntarily supplement the Federal SSI benefits to provide a higher level of assistance than the Federal program provides. More than half of the States are currently supplementing the Federal benefits by amounts ranging up to $174 a month for aged individuals who live independently. States may choose either to have the Federal Government pay both the Federal and State portion in a single check to recipients, and then bill the State for its supplementary payments, or to administer their own supplementary payment program for State residents whether or not they receive Federal payments.

As a condition of eligibility for medicaid matching funds, States are required to maintain their level of spending for State supplementary payments when cost-of-living increases are added to the Federal benefits. This rule prevents States from reducing the aggregate amount of their supplementary payments when such increases are made and insures that the cost-of-living increase will, in fact, be passed on to recipients.

Table 1 enumerates the number of people receiving SSI benefits, and the average monthly amount of State supplementation.

TABLE 1.—SUPPLEMENTAL SECURITY INCOME: NUMBER OF PERSONS RECEIVING FEDERALLY ADMINISTERED PAYMENTS AND AVERAGE MONTHLY AMOUNT, BY REASON FOR ELIGIBILITY AND TYPE OF PAYMENT, AUGUST 1981

Type of payment	Total	Aged	Blind	Disabled
	Number of persons			
Total	4,042,800	1,709,934	[1] 78,196	[2] 2,254,670
Federal SSI payments [3]	3,616,494	1,462,639	68,994	2,084,861
Federal SSI payments only	2,416,168	1,056,155	42,208	1,317,805
Federal SSI and State Supplementation	1,200,326	406,484	26,786	767,056
State supplementation [4]	1,626,632	653,779	35,988	936,865
State supplementation only	426,306	247,295	9,202	169,809
	Amount of payments (in thousands)			
Total	$733,037	$234,265	$17,830	$480,942
Federal SSI payments	577,422	173,085	12,963	391,374
State supplementation	155,615	61,181	4,867	89,567
	Average monthly amount			
Total	$181.32	$137.00	$228.02	$213.31
Federal SSI payments	159.66	118.34	187.88	187.72
State supplementation	95.67	93.58	135.24	95.60

[1] Includes approximately 25,000 persons aged 65 and over.

[2] Includes approximately 394,000 persons aged 65 and over.

[3] Includes persons with Federal SSI payments only, and Federal SSI and federally administered State supplementation data partly estimated.

[4] Includes persons with federally administered State supplementation only, and Federal SSI and federally administered State supplementation data partly estimated.

The fiscal year 1981 budget for SSI benefits was $6.398 million; States supplemented this amount with an additional $2,097 million.

Benefits under SSI are paid to individuals who are 65 or older, blind or disabled, meet certain income limitations and who do not have assets of more than $1,500 for an individual or $2,250 for a couple. The value of a person's home is not counted as a resource for SSI eligibility, but the Secretary of the Department of Health and Human Services (HHS) is required to establish, through regulations, limits on the value of automobiles, household goods, and personal effects which can be excluded from consideration.

The current limits set by regulation are $4,500 in market value for an automobile, and $2.000 in equity value for household goods and personal effects. The value of an automobile or household goods and personal effects in excess of those limits is counted toward the asset limit for eligibility. Regulations also provide guidelines for determining the countable value of certain other assets, such as life insurance policies.

B. ELDERLY PARTICIPATION

The SSI program is often perceived as dealing primarily with needy older persons. This perception is a carryover from the former State welfare programs which were predominantly composed of aged persons, with smaller numbers of blind and disabled individuals served. In fact, the proportion of disabled recipients had been growing rapidly in the period preceding the implementation of the SSI program. Contrary to the planning forecasts made by the Social Security Administration, which anticipated the number of older recipients would outnumber the disabled by two to one, the growth of the disabled category has continued while the number of older persons has declined (table 2). Since 1976, about 80 percent of SSI applications have been based on disability and blindness rather than age.

At the end of 1981, 66 percent of new SSI awards are for disability or blindness; 34 percent are for age.

TABLE 2.—SSI APPLICATIONS, BY CATEGORY, 1974–80

	Total	Aged	Percent of total	Blind and disabled	Percent of total
Calendar year:					
1974	2, 296, 400	926, 900	40	1, 369, 500	60
1975	1, 498, 400	377, 400	25	1, 121, 000	75
1976	1, 258, 100	254, 400	20	1, 003, 700	80
1977	1, 298, 400	258, 500	20	1, 039, 900	80
1978	1, 304, 300	257, 900	20	1, 046, 400	80
1979	1, 351, 918	262, 312	19	1, 089, 606	81
1980	1, 427, 070	276, 403	19	1, 150, 667	81

Several reasons have been advanced to explain the relatively low number of elderly applicants. One possibility is that the original projections overestimated the eligible elderly population and underestimated the rising number of disabled people. Another theory holds that some eligible people may still be unaware of the SSI program despite extensive efforts to inform the public. In addition, numerous studies have suggested that the stigma attached to public assistance inhibits participation.

A recent study, "Analysis of Nonparticipation in the SSI Program," by John A. Menefee, Bea Edwards, and Sylvester J. Scheiber, published in the June 1981 Social Security Bulletin, indicates that dread of stigma associated with dependence on welfare does not seem to have been eliminated by the switch from State-administered programs to the Federal SSI program. The report also suggests that substantial numbers of people who would qualify for only small SSI payments or who are living with relatives are unwilling to accept SSI payments under what they perceive as a welfare program. In these cases, the benefits offered are not sufficient to compensate for the effort, expense or stigma of participation.

C. CONGRESSIONAL ACTION

1. New Transfer of Assets Rule (Public Law 96-611)

On December 28, 1980, President Carter signed into law H.R. 8406 (Public Law 96-611), which contained a new "transfer of assets" rule providing penalties for applicants for SSI and medicaid who transfer an asset for less than fair market value.

The new law amends section 1613(c) of the Social Security Act by requiring the Social Security Administration to consider as available any asset of an applicant for SSI which has been transferred for less than fair market value in the months prior to application, unless the applicant can present convincing evidence that the asset was disposed of for reasons other than to obtain eligibility for SSI. In other words, the burden of proof is on the applicant. The provision does not apply to assets which are excluded under the SSI statute (such as the home) and other Federal statutes. The rules apply to all persons who filed SSI applications after February 28, 1981.

2. Omnibus Budget Reconciliation Act of 1981

In passing the Omnibus Budget Reconciliation Act of 1981, Congress accepted a budget-cutting recommendation of the Reagan administration to change the accounting period used for calculating SSI benefits. The change is to base SSI benefits, in general, on actual income received and other relevant circumstances of the previous month (retrospective accounting) rather than on anticipated income of the future quarter (prospective accounting). An exception was made for the month of application, when both eligibility and benefit amounts would continue to be determined on a prospective basis. The Congressional Budget Office originally estimated that the new rule will reduce Federal SSI benefit outlays by $30 million in fiscal year 1982, and by $60 million annually in fiscal year 1983 through fiscal year 1986. However, because of a technical flaw, the new law does not provide for proper coordination of title II (OASDI) and title XVI (SSI) cost-of-living increases, and the administration is now estimating that the change as written will result in increased costs rather than in savings.

Congress rejected a recommendation of the Reagan administration that might have reduced SSI benefits in the 31 jurisdictions (30 States and the District of Columbia) that now supplement the basic Federal

SSI benefit with their own funds. The proposal, which was included in the administration's Social Welfare Amendments of 1981 (H.R. 3468 and S. 1293) would have repealed the law requiring States to maintain their aggregate spending on SSI supplements in order to be eligible for medicaid matching funds. This change would have allowed States to reduce the amount of their supplementary payments when Federal cost-of-living increases are added to payments. This, in effect, would have permitted States to maintain *total* benefit payments at the same level, negating the cost-of-living increase. Since this proposal was rejected, the present rule requiring States to maintain their level of supplementary payments remains in effect.

The Omnibus Budget Reconciliation Act restricts Federal funding for reimbursement of rehabilitative services furnished by State vocational rehabilitation agencies to SSI recipients. The new rule permits Federal reimbursement only for "rehabilitated" SSI recipients who succeed in performing substantial gainful activity (now defined as earning $300 a month) for a continuous period of 9 months. The Congressional Budget Office estimates that the new rule will cut Federal outlays by $20 million in fiscal year 1982, $18 million in fiscal year 1983, and $15 million in fiscal year 1984. The Reagan administration had recommended outright repeal of reimbursement at an estimated annual saving of $20 million.

D. ADVISORY COMMISSION RECOMMENDATIONS

During 1981, two national advisory groups, the President's Commission on Pension Policy and the National Commission on Social Security, issued final reports concluding that present Federal SSI benefit levels are too low and eligibility criteria too restrictive. The following recommendations to liberalize the SSI program were included in the reports.

1. Increase Benefit Levels

The President's Commission on Pension Policy recommended that Federal SSI benefits be set at the poverty level to insure a minimal, adequate retirement income. Federal benefit levels currently fall short of the official poverty line. The annual maximum benefit level (unsupplemented) for an individual for 1981 was $3,012 while the poverty line was $4,360. However, the addition of SSI State supplements and in-kind income such as food stamps raises the combined benefit levels above the poverty level in several States.

The President's Commission indicated that, although in-kind benefits such as medicare, medicaid, food stamps, and housing assistance play a significant role in contributing to the economic well-being of the elderly poor, the significance of these benefits should not be overstated. Even if all in-kind benefits are considered, the President's Commission estimated that 58 percent of single older people did not have sufficient cash and in-kind benefits in 1978 to achieve the standard of living implied by the moderate income levels of the Bureau of Labor Standards' intermediate budget.

The National Commission on Social Security recommended that Federal SSI payment levels be increased by 25 percent, which would bring cash benefits close to the poverty level. The increase in cost would be partially offset by savings from eliminating food stamps for SSI recipients. A 25-percent increase would add about 700,000 new recipients and would increase costs as follows: 1982, $3,085 million; 1983, $4,010 million; 1984, $4,310 million; 1985, $4,660 million; and 1986, $5,100 million.

2. REMOVE ASSET TEST

The limitation on assets, which is currently $1,500 for an individual and $2,250 for a couple, was put into law and regulations to insure benefits would not be paid to people who are not in need. Yet, experience with the administration of the SSI program has indicated that very few people with incomes low enough to qualify for SSI payments have assets of any significant value.

The National Commission on Social Security concluded that the asset test denies benefits to some people who genuinely have inadequate incomes and "need" benefits. In recommending the elimination of the asset test, the President's Commission on Pension Policy said the test requires an administrative bureaucracy and unnecessary intrusion into the lives of potential recipients.

Removing the assets test would add approximately 285,000 new recipients to the SSI rolls by the end of 1983. The National Commission estimated future costs as follows: 1982, $85 million; 1983, $265 million; 1984, $355 million; 1985, $380 million; and 1986, $390 million.

3. INCREASE UNEARNED INCOME DISREGARDS

Under the law, SSI recipients are allowed to disregard up to $20 per month in unearned income and still receive full SSI benefits. The most common form of unearned income is the receipt of social security benefits. About 50 percent of all SSI recipients and 70 percent of aged recipients receive such benefits. Table 3 indicates the number of persons receiving unearned income and the average monthly amount of such income.

TABLE 3.—SUPPLEMENTAL SECURITY INCOME: NUMBER OF SSI RECIPIENTS RECEIVING UNEARNED INCOME AND AVERAGE MONTHLY UNEARNED INCOME, BY REASON FOR ELIGIBILITY AND TYPE OF INCOME, DECEMBER 1980

Type of income	Total	Reason for eligibility		
		Aged	Blind	Disabled
Total number	4,142,017	1,807,776	78,401	2,255,840
	Number			
Social security benefits	2,110,560	1,268,276	29,673	812,611
Other unearned income	455,905	231,824	8,888	215,193
Earned income	134,352	35,076	5,627	93,649
	Percent with income			
Social security benefits	51.1	70.2	37.8	36.0
Other unearned income	11.0	12.8	11.3	9.5
Earned income	3.2	1.9	7.2	4.2
	Average monthly income			
Social security benefits	$196.94	$198.56	$208.43	$194.00
Other unearned income	74.35	65.44	75.84	83.88
Earned income[1]	106.95	92.30	386.57	95.64

[1] Revised.

Source: Social Security Bulletin, September 1981, Vol. 44, No. 9.

4. INCREASE EARNED INCOME DISREGARDS

Currently, earned income up to $65 per month, plus one-half of any remaining earnings, can be disregarded in determining SSI payments and eligibility. This earned income disregard has not been updated since the program began in 1974.

The National Commission recommended raising the earned income disregard beginning in 1982 to account for wage increases since 1980, and indexing the revised amount to reflect changes in the Consumer Price Index. The Commission estimated the future costs as follows: 1982, $2 million; 1983, $4 million; 1984, $6 million; 1985, $7 million; and 1986, $8 million.

5. BENEFIT REDUCTION WHEN LIVING IN ANOTHER'S HOUSEHOLD

Under current law, the SSI payment is reduced by one-third for any person living in the household of another and receiving in-kind support and maintenance from that person. This reduction was intended to reflect the value of the room and board received by the recipient. In December 1980, about 6 percent of all SSI recipients lived in another person's household (table 4).

TABLE 4.—SUPPLEMENTAL SECURITY INCOME: NUMBER AND PERCENTAGE DISTRIBUTION OF SSI RECIPIENTS BY REASON FOR ELIGIBILITY AND LIVING ARRANGEMENTS, DECEMBER 1980

Living arrangements	Total	Aged	Blind	Disabled
Total number	4, 142, 017	1, 807, 776	78, 401	2, 255, 840
Total percent	100. 0	100. 0	100. 0	100. 0
Own household	88. 3	90. 0	89. 2	86. 8
Another's household	6. 2	5. 2	6. 6	7. 0
Institutional care covered by medicaid	5. 4	4. 8	4. 2	6. 0

The National Commission concluded that the one-third reduction in the SSI payment discourages people from taking a relative into their home and can result in aged parents being placed in institutions at a higher cost paid by medicaid. The Commission recommended that the one-third reduction be eliminated and estimated future costs for this change to be as follows: 1982, $480 million; 1983, $550 million; 1984, $620 million; 1985, $665 million; and 1986, $705 million.

Chapter 7

FOOD STAMPS

The food stamp program was created in 1964 to increase the food purchasing power of low-income households. Since its inception, the program has been of enormous benefit in meeting the basic daily living needs of low-income Americans. At the beginning of 1981, it was estimated that, due to increased participation, the cost of the food stamp program in 1982 would grow to approximately $12.3 billion. During 1981, Congress enacted several legislative changes designed to reduce fiscal year 1982 food stamp program expenditures to $11.3 billion. While the elderly were exempted from a major provision of the legislation that tightened the program's income eligibility requirements, other provisions that effectively freeze food stamp benefit levels will erode purchasing power for older recipients in 1982 and future years.

Because food stamp expenditures are so closely tied to economic conditions, they may still exceed the fiscal year 1982 spending cap established by the Congress. Thus, it is possible that further program reductions will be proposed by the administration and the Congress in 1982.

A. ELDERLY PARTICIPATION

Several legislative changes have been made to the food stamp program over the last few years. The major change affecting the elderly has been the elimination of the purchase requirement (EPR) in the Food Stamp Act of 1977. Prior to implementation of this act, most households were required to pay cash for their stamps. The value of the stamps they received was greater than the purchase price and the benefit of the program was derived from that difference.

Many eligible households were unable to take advantage of the program because they had difficulty acquiring and accumulating the cash required to obtain stamps. In addition, some households were reluctant to exchange their scarce cash resources for "coupons." Federal studies conducted in 1977 indicated that only about 40 percent of all eligible older persons participated in the program. Since elimination of the purchase requirement, program participation among the aged has steadily grown. The Department of Agriculture announced in early 1981 that participation by households headed by the elderly increased by 32 percent from February 1978 to April 1979. Midyear departmental data suggested that participation by persons 65 and over had increased by a total of 42 percent.

At the close of 1981, the participation rate among eligible older citizens was believed to be in excess of 50 percent, or 2.3 million people. This figure represents approximately 10 percent of the estimated 22.5 million Americans who received food stamp benefits during that year. There is no evidence to suggest that participants since the elimination of the purchase requirement have markedly lower or higher incomes, on the average, than those who participated prior to that action.

B. CONGRESSIONAL ACTION

Food stamp program eligibility and benefit amounts are federally established. Income eligibility standards vary according to the type of household income (earned versus unearned) and whether a household has special expenses for shelter, dependent care, and/or medical care. Each participating household's monthly food stamp allotment is determined by reducing the maximum monthly allotment to which it would be entitled if it had no countable income by 30 percent of any countable income. Maximum monthly allotments are calculated based on the Department of Agriculture's "thrifty food plan" estimates of the cost of a nutritionally adequate diet. These estimates are adjusted to household size and periodically adjusted for food price changes.

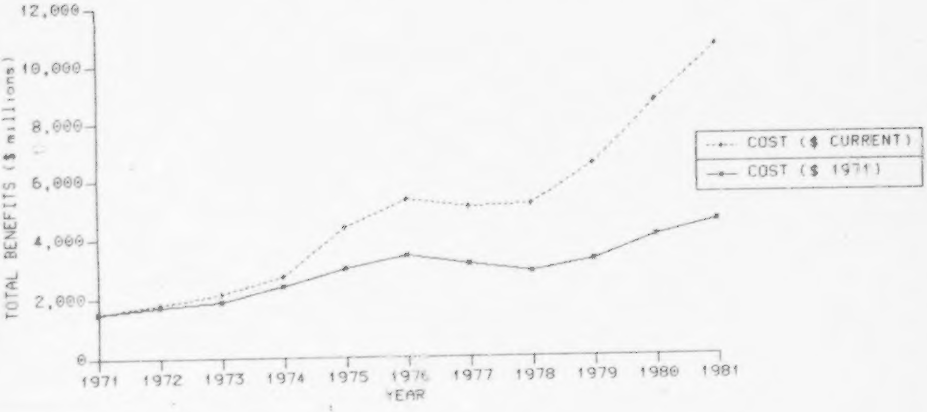
In addition to using their food stamps in grocery markets, senior citizens may use them to purchase meals in congregate eating facilities. Food stamps can buy meals served in senior citizens centers, senior citizen occupied apartment buildings, public or private nonprofit schools, and any other public or private nonprofit establishment that feeds older Americans. The elderly may also use food stamps to buy prepared meals delivered to their homes by meals-on-wheels and similar organizations.

Despite past congressional efforts in 1977 and 1980 to reduce the cost of the food program by restricting eligibility requirements, spending has increased. Most of the increase can be attributed to economic conditions and the increase in participation resulting from the 1977 elimination of the purchase requirement. In early 1981 it was estimated that the program would cost the Federal Government $12.3 billion in fiscal year 1982, 8 percent more than the $11.5 billion appropriated for fiscal year 1981.

President Reagan's fiscal year 1982 budget assumed that Congress would approve, in 1981, several legislative changes in the program to lower food stamp expenditures by $1.5 billion in fiscal year 1982, and larger amounts in later years. Three of these proposals, totaling $400 million in savings, would have had significant effects on the elderly.

First, the Reagan proposals would have established an absolute gross income eligibility limit at 130 percent of poverty, with no allowance for special and necessary expenses such as medical costs. The new lower limit would have been $467 and $616 per month, for singles and couples respectively. As previously discussed, present rules for income eligibility vary according to type of income and special needed expenses. In effect, these rules can permit those with gross incomes as high as 200 percent of the official Federal "poverty levels" to receive food stamp benefits. Current statistics indicate, however, that 94.7 percent of all food stamp benefits are received by households with gross incomes at or below the poverty standard.

FOOD STAMP PROGRAM
TOTAL ANNUAL BENEFIT PAYMENTS
1971-1981



Source: Congressional Research Service

BENEFITS TO HOUSEHOLDS IN RELATION TO POVERTY STANDARDS: AUGUST 1980

	Percentage of all participating households	Benefits	
		Percentage of benefits	Cumulative percentage of benefits
Gross income as a percentage of the poverty levels:			
10 or less	8.7	12.7	12.7
11 to 20	1.5	3.2	15.9
21 to 30	3.7	6.6	22.5
31 to 40	4.4	6.1	28.6
41 to 50	5.9	8.9	37.5
51 to 60	12.4	16.3	53.9
61 to 70	11.8	13.3	67.1
71 to 80	18.6	15.2	82.3
81 to 90	13.7	8.6	90.8
91 to 100	6.9	3.8	94.7
101 to 110	4.5	2.5	97.2
111 to 120	3.4	1.5	98.7
121 to 130	1.9	.8	99.5
131 to 140	1.0	.3	99.8
141 to 150	.5	.1	99.9
151 or more	.5	.1	100.0
Unknown	.9		

Source: Department of Agriculture, Food, and Nutrition Service, August 1980, food stamp quality control survey sample

Second, the Reagan proposals would have permanently frozen the $85-per-month "standard deduction." This deduction determines the basic amount of income that is disregarded in calculating food stamp benefits and historically has been indexed annually for inflation.

Finally, the Reagan proposals would have repealed a provision of law, scheduled to take effect in 1982, that would have increased benefits to elderly recipients with medical expenses by allowing these recipients to have an additional $10 per month in medical expenses disregarded when benefits are calculated. The provision would have permitted all medical expenses above $25, rather than $35, to be disregarded.

The Omnibus Budget Reconciliation Act of 1981 adopted the three Reagan administration proposals affecting the elderly but with some significant changes. Households containing elderly (age 60 or over) or disabled members are exempted from the new, lower income eligibility limits and will continue to have their eligibility judged by existing rules. This exemption was achieved through adoption of an amendment on the Senate floor that was subsequently agreed to by Senate and House conferees. In a statement supporting this amendment, Senator Heinz emphasized the inherent inequity of using a gross rather than net income measure to determine program eligibility for the elderly population because of their high medical or shelter expenses, or both. He stated that while such a change in the law might seem insignificant, it would not be insignificant to those that would "lose their needed benefits and have no other possible source of income to compensate for this loss."

Under the Reconciliation Act, the $85 per month "standard deduction" will be frozen through June 1983. After this time, inflation adjustments will be made in July 1983, October 1984, and in October of each year thereafter. President Reagan's proposal to repeal increased benefits to elderly recipients with medical expenses was adopted without change, thus limiting the medical deduction to expenses in excess of $35.

This year's legislation also added one important new cost-saving revision that will affect the elderly along with other recipients. Benefit levels, now adjusted annually each January to reflect food-price inflation, will be adjusted on a delayed schedule. The adjustment due in January 1982, will be delayed until October 1982, with future adjustments made in October 1983, and in October of each year thereafter. Adjusting benefit levels in October 1982, will create a problem for elderly households who also receive social security and supplemental security income (SSI) benefits. On July 1, 1982, these households wil~~l receive~~ their social security and/or SSI cost-of-living adjustment. That increase will then be counted against their food stamp benefits, resulting in a reduction in these benefits equal to 30 to 45 percent of the increase they have just received. However, when the food stamp cost-of-living adjustment is made 3 months later, these benefits will be partially or totally restored. During congressional discussions regarding recipient confusion and the administrative difficulties that would result from postponing cost-of-living increases in October, it was agreed that the Agriculture Committees of the Senate and the House would review the timing of benefit increases and attempt to remedy this situation prior to July 1982. One solution recommended by Senator Heinz and Senator Chiles would not allow social security and SSI cost-of-living increases to be counted against food stamp benefits until October 1, 1982. The synchronization of these benefit increases would reduce by $25 million the $900 million in total fiscal year 1982 cost savings from the cost-of-living delay.

Total food stamp savings to be achieved by the provisions of the Omnibus Reconciliation Act and other legislative measures total $2.4 billion for fiscal year 1982. Approximately $150 to $250 million in savings is expected to result from provisions affecting elderly recipients. The largest proportion of the savings affecting older persons is anticipated to accrue from the delay in inflation indexing of benefit levels and the "standard deduction" which will decrease their food stamp purchasing power.

The Food Stamp Act of 1977 continues a demonstration project cashing out food stamp benefits for SSI recipients and the elderly. ("Cash-out" means issuing cash or checks instead of food stamps to eligible households.) There are currently "cash-out" programs underway in seven States. The objective of this demonstration effort is to increase the low participation of the elderly by removing perceived participation barriers such as difficult application procedures, lack of transportation, and the "welfare stigma" associated with receiving food stamps. The Department of Agriculture is currently evaluating the effects of cashing out food stamp benefits on participation, administration, and the nutritional status of the elderly. Although the Department has not yet completed its study, preliminary testimony received by the Senate Special Committee on Aging, during its hearings on the impact of the budget on the elderly, suggests that this approach is cost effective and does not adversely impact on the nutritional status of older Americans. The 1981 food stamp legislation extends the Department's demonstration authority through September 30, 1985. As a result, additional States are expected to participate in the cash-out project.

All Americans who meet the eligibility criteria for participation in the food stamp program are entitled to receive benefits. Because of the "entitlement" nature of the program, Congress must appropriate sufficient funds to meet the cost of providing benefits for all those who are eligible and apply for benefits. As discussed earlier, the rapid growth of the food stamp program has been of major concern to the Congress over the last few years. In addition to reducing the size of the eligible population in the Food Stamp Act of 1977, the law directed that an annual ceiling be placed on appropriations through fiscal year 1981. The annual ceilings were set according to estimates made during 1977 using assumptions regarding growth in the economy and income, food price inflation, and unemployment. To assure that the ceiling was not exceeded, the Secretary of Agriculture was given the authority to reduce benefits to stay within the cap if it appeared that program costs would exceed the spending ceiling.

The assumptions used to project program costs through fiscal year 1981 proved to be far too optimistic. By fiscal year 1979, Congress was forced to raise the cap to prevent substantial benefit reductions. Without such action, the Congressional Budget Office estimated that food stamp benefits in the summer and fall of 1979 would have had to be reduced by 30 percent or more. A similar dilemma faced the Congress in fiscal years 1980 and 1981 as economic conditions worsened. Increases in unemployment, declines in real income among participants, and rising utility costs as a percentage of household spending have all contributed to the increase in program costs despite major changes in the 1977 Food Stamp Act that resulted in a loss of substantial benefits and eligibility for at least 25 percent of program recipients.

In May 1981, Congress appropriated an additional $1.7 billion for the food stamp program, increasing the level of spending from $9.7 to $11.5 billion. Authorizing legislation passed in 1981 established an appropriations ceiling of $11.3 billion for fiscal year 1982, but postponed consideration of ceilings for future fiscal years until 1982. In a Senate and House conference on authorizing amendments to the Food Stamp Act, the conferees agreed that even the $11.3 billion cap "may prove inadequate to allow full funding of benefits." In that event the conferees stated that they would not want the Secretary to take any action to reduce benefits "until 60 days have elapsed after the date the Secretary announces any intention to reduce benefits." The 60-day period would give Congress the time to consider legislation to amend the authorization ceiling and provide the necessary supplemental appropriations using cost estimates based on more timely economic assumptions. Consistent with food stamp program's authorizing language, the Congress appropriated $10.3 billion for fiscal year 1982 funding of the food stamp program.

Chapter 8

HOUSING

OVERVIEW

As the number of older persons as a percentage of the Nation's total population has increased, the number of households headed by the elderly has also risen. Over one-fifth of all U.S. households—some 16 million—are headed by persons 65 or older today. Since one-third of all U.S. households are now headed by a person 55 or older, this growth trend is expected to continue in the future.

The cost of housing is a primary concern of older Americans because they pay a far larger proportion of their incomes for rent than other Americans. For example, the most current statistics indicate that the median rent of an elderly woman living alone consumes 48 percent of her income. This is not a new problem for the elderly. In chapter 1, statistics are presented which clearly demonstrate the ongoing problems faced by elderly renters and homeowners.

Over the years, Congress has focused primarily on the needs of low-income renters. The existing housing portion of the section 8 program provides rental assistance to households occupying existing dwellings. The public housing program and the new construction/substantial rehabilitation portion of the section 8 program were developed to increase the supply of affordable housing for low-income individuals eligible for Federal rental assistance. At the present time, almost 50 percent of the 1.9 million units constructed through these programs are occupied by older Americans.

The section 202 direct loan program for the construction of specially designed low-income housing for the elderly and handicapped, enacted in 1974, has produced another 79,000 new units that are occupied by aged persons. In addition, 1978 legislation authorized the Department of Housing and Urban Development (HUD) to award grants to public housing authorities and section 202 sponsors to provide meals and supportive services to partially impaired elderly and handicapped persons, allowing them to remain in their own dwellings and out of expensive institutions. Over 2,200 elderly are now being served by the congregate housing services program. The demand for this and similarly designed programs that coordinate housing and supportive health care and housekeeping services can be expected to grow. However, no statistics are available indicating the projected level of future demand.

Neither the section 8 nor the section 202 program was designed to provide any form of direct subsidy to project sponsors in meeting their costs of construction and financing. Both were structured to stimulate construction by guaranteeing that low-income occupants would be subsidized thereby assuring occupancy of the developed units. By mid-1981, it was evident that high interest rates in both the public and private financing markets threatened to halt section 8 and section 202 assisted housing production programs unless some sort of development subsidy was made available. By the end of the year limited assistance had been provided to section 8 sponsors and a viable solution to the section 202 problem was awaiting approval.

During 1981, the Congress greatly reduced the amount of new funding to construct section 8 and public housing units in fiscal year 1981 and fiscal year 1982. By comparison, the section 202 program received a small reduction. Other changes were made in the law limiting eligibility for rental assistance and increasing the amount some individuals will be required to pay for rent. Despite the supportive efforts of the

SUMMARY OF HUD HOUSING UNITS FOR THE ELDERLY

[All figures represent number of projects/units currently insured by FHA unless otherwise noted]

Section No.: Program: Status	Projects	Units	Value	Approximate elder units	Percent of elders	Cumulative figures through—
CONSTRUCTION PROJECTS						
Title II: Low-income public housing: Active.	10,750	1,200,000	(9)	[1] 552,000	46	Sept. 30, 1979.
202: Direct loans for housing for elderly and handicapped:						
Inactive [2]	+330	45,275	574,580,000	45,275	100	1977.
Active [3]	1,006	90,323	4,130,154,957	79,185	89	June 30, 1981.
231: Mortgage insurance for housing for elderly: Active.	495	66,285	1,158,117,347	66,285	100	Do.
221(d)(3): Multifamily rental: Active.	3,532	355,101	5,718,508,463	21,918	7	Do.
221(d)(4): Housing for low- and moderate-income families: Active.	5,239	582,313	13,908,371,752	75,745	13	Do.
235: Home ownership assistance for low- and moderate-income families:						
Inactive [2]	[7] 472,059	473,032	8,456,660,790	(9)	(9)	Program revised.
Active	78,034	78,134	2,768,814,179			June 30, 1981.
207: Multifamily rental housing: Active.	2,633	275,588	3,944,141,865	3,380	1.2	Do.
236: Rental and co-op assistance for low- and moderate-income families: Inactive.	4,056	435,231	7,492,815,583	55,784	13	Do.
202/236: 202/236 conversions: Inactive.	181	[8] 28,059	480,098,460	[8] 28,059	100	Do.
232: Nursing home and intermediate care facilities: Active.	1,300	147,336	1,676,509,129	147,336	100	Do.
NONCONSTRUCTION PROGRAMS						
84: Low-income rental assistance:						
Existing: [4] Active	10,990	916,704	(9)	265,492	28	Do.
New construction: [4] [5] Active.	8,225	524,586	(9)	283,741	54	Do.
Substantial rehabilitation: [4] [5] Active.	1,654	117,904	(9)	41,394	35	Do.
312: Rehabilitation loans: Active. [5]	86,004	(9)	(9)	6,243	7.25	Sept. 30, 1980.
23: Low rent leased housing: Inactive. [2]	(9)	163,267	(9)	54,000+	35	Approximately December 1975.

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[1] Data do not indicate how many of these units are designed specifically for the elderly.
[2] Figures for original program reported through program revision.
[3] Figures for revised sec. 202/8 represent cumulative project reservations through June 30, 1981.
[4] Figures represent cumulative fund reservations through reporting date.
[5] Figures do not include sec. 8 commitments attached to sec. 202/8 fund reservations.
[6] Figures represent loan commitments only.
[7] Figures represent number of mortgages.
[8] Beds.
[9] Not available.

Source: Department of Housing and Urban Development.

Senate Special Committee on Aging, funding of the congregate housing services program was eliminated for fiscal year 1981 and fiscal year 1982.

The increasing costs of assisted housing programs due to the double subsidy to both renters and developers resulted in increased attention by the Congress, the administration, and others, on alternative, less expensive ways to meet the housing needs of low-income persons in general and older persons in particular. Creation of a Federal vouchering system, housing block grants, and shared housing were alternatives that were seriously discussed. The difficulties faced by "asset-rich" but "income-poor" elderly homeowners received special attention as two home equity conversion plans were launched in late 1981.

A. FEDERALLY ASSISTED HOUSING PROGRAMS

1. Section 8

The section 8 program is currently the largest of the Federal programs providing subsidized housing to households with incomes too low to obtain decent housing in the private market. Under the program, HUD enters into assistance contracts with owners of *existing* housing or developers of *new* or *substantially rehabilitated* housing for a specified number of units to be leased by households meeting Federal eligibility standards. Payments made to owners and developers under assistance contracts are used to make up the difference between what the rental household can afford to pay for rent and what HUD has determined to be the "fair market rent" for the dwelling. At the end of June 1981, it was estimated by HUD that approximately 597,000, or 37 percent, of the more than 1.5 million total section 8 units were occupied by older persons. Over 283,000, or 54 percent, of the newly constructed units were occupied by the elderly.

The section 8 program is not structured to provide any form of direct subsidy to project sponsors in meeting their development costs. Each project must meet a "feasibility test" of its ability to support all development (construction and financing) and future operating costs within the range of fair market rent levels established by HUD. However, fair market rent values do not adequately reflect the impact of soaring interest rates on development costs. As private lending rates have risen over the last few years several Federal responses have been formulated to assure construction of section 8 projects. These include encouraging the financing of projects with tax-exempt bond issuances and permitting, by annual regulation, the application of a "financing adjustment factor" (FAF) that increases fair market rents to reflect the higher costs of borrowing. These two responses result in tax or interest subsidies, respectively, to the project sponsors thereby increasing the cost of the program beyond the cost of the rent subsidy to low-income persons.

By mid-1981 it was evident that high interest rates in both the public and private financing markets threatened to halt the section 8 assisted housing production program unless a regulation permitting application of a FAF could be adopted. In June, Senator Heinz, Senator Chiles, and other members of the Senate Special Committee on Aging sent a letter to OMB Director David Stockman urging him to support a section 8 FAF regulation that HUD had submitted to OMB for approval. Secretary Pierce announced in August that the administration would go forward with a financing adjustment factor regulation applicable only to those section 8 projects commencing construction prior to June 1, 1982. Other aspects of the regulation: (1) Limited the FAF to tax-exempt bond financed projects; (2) provided that adjustments to the section 8 fair market rents be held to financing rates of up to 12 percent; (3) required the project developer to contribute an additional 1 percent to his equity share of the project's costs for each 1 percent increase in the interest rate that is reflected in the adjusted fair market rent; and (4) granted the Government's right to require that FAF projects be refinanced in the future with some or all of the added cost per unit to the Federal Government as a result of the FAF recaptured. It has been estimated that approximately 40,000 of the units reserved with 1981 and previous year's appropriations could commence construction under the terms of the FAF.

Prior to fiscal year 1982, assisted families were required to contribute not less than 15 percent and not more than 25 percent of their net incomes toward rent. However, the Omnibus Budget Reconciliation Act of 1981 increased the tenant share from not more than 25 percent to not more than 30 percent of net income. For those renters already living in section 8 units, the adjustment will be made over a 5-year period and rent increases over 10 percent per year will not be permitted. Only new tenants will be subject to the full effect of the change. The act also reduced the income eligibility limit to 50 percent of the median income in the local area from the current limit of 80 percent. It was assumed that this provision will better target low-income housing programs to those who most need assistance. This change will only apply to new tenants and will not affect the continued eligibility of tenants with incomes above 50 percent of median income. HUD regulations implementing these changes in the law have not yet been finalized.

While the existing housing component of the section 8 program has generally been alluded to as a successful form of assistance, the production component of the program, which was designed to stimulate rather than subsidize private sector construction and substantial rehabilitation of housing for low-income people, has been increasingly viewed as unsuccessful. The concern about the advisability of continuing the program in future years extends beyond the current market conditions which have resulted in the application of a FAF to many section 8 projects. Major objections to the program voiced by a number of Members of Congress and the administration in 1981 include:

(1) The basic structure of the section 8 program which requires a long-term obligation of assistance by the Federal Government in sponsoring a project. Technically, the assistance under the program is directed to low-income households. However, the subsidy is structurally tied to the unit rather than the tenants. Under the program, contracts are signed with the private developer assuring that assistance payments will be made for a specified number of units for a fixed period of up to 40 years assuring their occupancy by low-income tenants over that fixed period. Thus, assistance commitments made by the Federal Government each year require Federal expenditures for exceptionally long periods of time.

(2) The level of rent that is required as a result of constructing an assisted housing unit is usually higher than the amount needed to support a tenant in a unit of existing housing stock.

(3) The amount of unit subsidy agreed to in the section 8 assistance contracts understates the actual spending needs of the projects in future years. At present the total amount of assistance is calculated by multiplying the length of commitment by the maximum starting rent subsidy levels. There is an assumption implicit in the procedure that tenant contributions in the early years of the subsidy commitment and subsequent increases in tenant contributions will be sufficient to cover needed rent increases over the life of the assistance agreement. This method of calculation does not anticipate upward changes in rents or changes in tenant incomes and the share of that income that would be paid toward rent. As a result additional Federal dollars may need to be provided to support projects constructed under the section 8 program.

(4) The various forms of low-cost financing that have been used to keep section 8 production going. Contrary to the original intent of the program, these mechanisms are, in effect, subsidies to the developers. This year's FAF is an example of one such subsidy. The Government National Mortgage Association (GNMA) Tandem program is another example. By purchasing, holding, and subsequently selling mortgages made available to developers of section 8 projects in the private market, GNMA offers loans at below-market interest rates. Projects financed by tax-exempt bonds may also be regarded as subsidized since the tax-exempt status of the bonds results in a loss of revenue to the Federal Government.

2. SECTION 202

The section 202 program is the primary Federal financing vehicle for constructing housing for older persons that will enable them to remain self-sufficient and independent in our society. Under the program, the Federal Government makes a direct loan to private, nonprofit project sponsors to use in developing section 8 housing that is specifically designed to the needs of the low-income elderly and handicapped. Since the program's authorization in 1974, over 79,000 units for the elderly have been constructed.

Like other section 8 projects, section 202 projects must meet the fair market rent feasibility test. As the cost of direct loan borrowing rises, total development costs rise, making it harder to meet this test. The interest rate on the direct loan is tied to the Treasury borrowing rate which until 1981 was below 9 percent. In early fiscal 1981 that rate rose to 9¼ percent with HUD indicating that the rate for fiscal year 1982 could be even higher. Although a large share of projects were able to begin construction in 1981 with the 9¼ percent interest rate, several sponsors indicated that no construction could begin if interest rates rose without eliminating or reducing the special aspects of design that are are of vital importance to older Americans.

Section 8 projects financed under the section 202 direct loan program were not made eligible for assistance under the previously discussed 1981 FAF regulation. By November 1981, it appeared that if the direct loan interest rate was established using past methods relating it to the Treasury borrowing rate, it would be 11¾ percent in 1982. Because of their concern about the effect of this interest rate on elderly housing production, the Senate and House Committees on Aging sent a letter to Secretary Pierce urging him to exercise his statutory authority to make the financing of section 202 projects feasible by either applying a financing adjustment factor regulation increasing section 8 contract rents *or* lowering the direct loan interest rate below the statutory maximum.

In a subsequent colloquy between Senator Heinz and Senator Garn, chairman of the Committee on Banking, Housing and Urban Affairs, both agreed that raising the interest rate to 11¾ percent would make many section 202 projects infeasible to construct. It was further agreed that HUD should keep the interest rate at 9¼ percent in 1982. At the close of 1981, the Department had not made a decision regarding this issue. The construction of approximately 34,000 units is estimated to depend upon keeping the direct loan interest rate at 9¼ percent.

As section 8 recipients, many older persons living in section 202 housing will be affected by the 1981 Omnibus Budget Reconciliation Act's requirement that tenants be required to pay up to 30 percent of the household's adjusted income for rent. Other elderly, waiting to obtain a section 202 assisted housing unit may be affected by the new eligibility test limiting eligibility to those with incomes at 50 percent of the median or below.

The 1981 supplemental appropriations bill rescinded authority for only 400 of the 18,800 units for which funds had been made available in the 1981 appropriations bill. For fiscal year 1982 appropriations were provided for 17,200 units.

In September, the Department submitted a section 202 cost reduction report to the Congress which had been requested in late 1979. The report emphasized the impact that inflation has had in increasing building costs and suggested ways in which costs might be reduced or cost increases moderated. They are as follows:

(1) Revision of the Davis-Bacon[1] wage requirements for section 202. Davis-Bacon currently applies to all section 202 projects, including projects of 8 units or less. Other section 8 projects and most Federal mortgage insurance programs exclude from coverage any project of eight units or less.

(2) Changes to section 202 regulations to require the use of competitive bidding for nonprofit sponsors. It is assumed that competitive bidding would result in lower construction costs and accelerated Federal processing since cost certification procedures from contractors would be eliminated.

(3) Amendment of section 202 instructions to require sponsors to provide a significant number of efficiency apartments in all projects for the elderly in market areas where the HUD field offices determine there is a market acceptance and market demand for such units.

(4) Issuance of instructions which specify the scope and acceptability of the project amenities. Swimming pools and saunas would be prohibited. Common areas would be restricted to those needed to serve

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[1] The Davis-Bacon Act requires that federally assisted construction project contractors pay the prevailing wage rates set by the Department of Labor for that geographic area.

the residents. Amenities proposed by the sponsor after the initial application stage would not be allowed.

(5) Development of incentives that could be offered to section 202 sponsors to reduce costs. For example, one incentive being considered would reduce by 50 percent the required minimum capital investment, usually $10,000, which must be provided from the sponsor's funds and is escrowed for a period of 3 years from the date of occupancy.

(6) Increased support by HUD of the private sector shared housing effort and the investigation of ways that section 202 and other HUD programs might fit into a shared housing concept for the elderly.

(7) Revision of HUD's minimum property standards. It is assumed that these standards are excessive and should not be more restrictive than those found in the private sector.

3. Public Housing

The low-rent public housing program is the oldest of those Federal programs providing housing for the elderly. It was established by the United States Housing Act of 1937. Over 45 percent of the Nation's more than 1.2 million public housing units are occupied by older Americans. It is a federally financed program which is operated by locally established, nonprofit public housing agencies (PHA's). Each agency usually owns its projects. By law the PHA's can acquire or lease any real property appropriate for low-income housing. They also are authorized to issue notes and bonds to finance the acquisition, construction, and improvement of projects. Federal assistance to the projects is in the form of annual contributions that are used to pay the PHA's debt service. Originally this was the only form of Federal public housing assistance. It was assumed that tenant rents, set at amounts no higher than 25 percent of a tenant's net income, would cover project operating costs for such items as management, maintenance, and utilities. Over the past few years tenant rents have not kept pace with increased operating expenses. As a result, Congress has provided additional assistance to the projects to cover these expenses.

A large percentage of new construction of public housing over the last 10 years has been for the elderly because of reduced management problems and of local opposition to family units. In many communities there is a long waiting list for admission to those projects serving the elderly and such lists can be expected to increase as the demand for elderly rental housing continues in many parts of the Nation.

Since 1971, PHA's have had the authority to use Federal funds for the provision of dining facilities and equipment in public housing projects. No subsidy was provided to cover the cost of meals and other services. To date there has been little development of these "congregate" facilities. In a study on long-term care released by the Department of Health and Human Services in late 1981, a variety of reasons were cited, including the fact that local housing agencies have had little experience in managing the necessary services; there has been little Federal encouragement and support; and assurance of funds to pay for the services on an ongoing basis has not existed. Most services have been provided by local service agencies funded by the Older Americans Act, medicaid, and the title XX Social Services Act.

The 1981 supplemental appropriations bill provided an increase of $100 million over the previously appropriated $970.8 million for the operation of public housing projects. The increase was viewed as necessary by the Congress to cover the cost of utility charges that were higher than originally estimated during consideration of the 1981 appropriations bill. To illustrate the severity of the problem, PHA's spent over $750 million for energy costs in 1980, with larger PHA's spending 50 percent of their operating budgets on utilities. At the same time the gap between tenant income and annual costs continued to grow with tenant incomes increasing by 5 percent, while utility costs were rising in a range of 20 to 30 percent. The Omnibus Budget Reconciliation Act of 1981 authorized expenditures of up to $1.5 billion for PHA operating subsidies in fiscal year 1982. The subsequently enacted appropriations bill provided $1.2 billion for this purpose. As with the section 8 and section 202 assisted housing programs, the reconciliation bill changed existing law so that public housing tenants will be required to pay up to 30 percent of the household's adjusted income for rent and new tenants will be required to meet the 50 percent of median income eligibility test. The reconciliation bill in combination with the appropriation bill provides sufficient funding for 15,000 to 16,000 new public housing units in fiscal year 1982. The 1981 supplemental appropriations bill rescinded authority for 11,600 of the 42,000 units for which funds had been made available in the 1981 appropriations bill.

ANNUAL CONTRIBUTIONS FOR ASSISTED HOUSING, FISCAL YEAR 1981-82 UNIT RESERVATIONS BASED ON CONGRESSIONAL ACTION

	Fiscal year 1981		
	Before rescission	After rescission	Fiscal year 1982
Section 8:			
New construction/substantial rehabilitation	85, 344	51, 500	26, 735
Sec. 202	18, 800	18, 400	17, 200
Existing	132, 907	107, 100	74, 296
Subtotal—sec. 8	237, 051	177, 000	118, 231
Public housing	42, 000	30, 396	24, 000
Total	279, 051	207, 396	142, 231

Source: Senate Committee on Appropriations.

4. CONGREGATE HOUSING SERVICES

The Congregate Housing Services Act, passed in 1978, authorized HUD to award grants to public housing authorities and section 202 housing sponsors to provide nutritional meals and supportive services to partially impaired elderly and handicapped persons allowing them to remain in their own dwellings and out of expensive institutions. These 3- to 5-year grants require supplemental funding from other community sources to support the delivery of the services. The law prohibits the duplication of existing services and sets up a procedure for coordinating them with congregate housing services through the local area offices on aging. Specifically, congregate housing services projects are required by law to provide at least two meals per day, 7 days a week, at central dining facilities. Homemaker, housekeeping, personal assistance, counseling, transportation, and other necessary supportive services may be offered as needed. Program participants are required to pay a fee for the services they receive based on their ability to pay.

In enacting the congregate housing services legislation, Congress was responding to two pressing problems—the growing number of frail Americans and the skyrocketing cost of health care. At that time overwhelming evidence was presented to the authorizing committee demonstrating that the provision of relatively low-cost meals and other support services in a residential setting could prevent premature, expensive institutionalization in nursing homes as well as unnecessarily long hospital stays. Thus, it was assumed that successful implementation of the congregate housing service program (CHSP) would result in significant savings to the medicare and medicaid programs. Equally important, it was assumed this new program would help protect low-income elderly and handicapped individuals from a loss of independence which, when unnecessary, can be an immeasurable human tragedy.

In its second annual report to Congress on the congregate housing program, HUD described the program's transition from program design to operations in calendar year 1980. As of May 1981, a total of 55 grant awards had been made committing $16 million of the $20 million previously appropriated by Congress for fiscal years 1979 and 1980. By the end of 1981 most selected projects were operational and serving over 2,200 older Americans. The Department will complete its review of grant applications in early 1982 so that the remaining amount of unobligated funds can be committed.

In 1980 Congress appropriated $10 million for 1981 funding of the CHSP. President Reagan requested a rescission of these funds which the Congress agreed to in its 1981 supplemental appropriations bill. During floor debate on the bill, Senator Heinz, as chairman of the Senate Special Committee on Aging, voiced his concerns about the rescission and more specifically the Appropriations Committee's stated intent to curtail all future funding of the program until comprehensive evaluation of the existing grantee projects could be completed. When the fiscal year 1982 appropriations bill was reported by the Senate Appropriations Committee, no amounts were included for congregate housing services projects. Senator Heinz and 22 cosponsors offered an amendment to add $10 million for this purpose which was adopted by the Senate. In his comments regarding the amendment he stated that although the HUD evaluation would not be completed for some time:

> Preliminary data collected by HUD and the American Association of Homes for the Aged * * * indicates that the program has been overwhelmingly successful in achieving its purposes. Premature institutionalization is being prevented * * * the development of housing for the partially impaired elderly and handicapped is being stimulated * * * Federal health-related expenditures are being reduced. * * *

> In this instance it would seem that our zeal to reduce Federal spending is undermining the very goal of fiscal responsibility we are seeking to achieve * * * nothing in the program's experience indicates the need to wait for further funding until an evaluation on cost-effectiveness can be made. * * * The real question is not *whether* but *how much* can be saved.

No fiscal year 1982 funds were included in the House appropriations bill for congregate housing services and the Senate-passed provision was deleted in a conference to resolve this and other differences between the two bills.

While enough data was not available in 1981 to permit a comprehensive report on the impact and effectiveness of the CHSP, initial operating statistics submitted to HUD did suggest two trends that would show cost savings to the Federal Government over time. One trend relates to individuals who have had a physical or mental crisis and have been able to stay in their own dwellings by virtue of the program's existence. The other trend shows individuals released from an institutional setting and admitted to a CHSP project. In these cases a large percentage of persons originally had been placed unnecessarily in a care facility, such as a nursing home, because of a lack of residential arrangements with supportive services.

The budget data included in HUD's second annual report showed that in 1980 it cost an estimated total of $9.85 per participant per day to provide a package of supportive services, including two meals. Of this amount, the Federal share was $6.16 per day.

The Department has contracted with the Hebrew Rehabilitation Home for the Aged in Cambridge, Mass., for a comprehensive CHSP evaluation. Jointly funded by HUD and the Administration on Aging, the study will examine the process of program development and operations; project performance; and the program's impact on individuals over time. The impact evaluation will analyze the effect of the CHSP on the health status of the participants and the source and pattern of the services they receive. It will concentrate on: (1) The effect of the program on rates of institutionalization, general functioning, and health of participants; (2) the extent to which the CHSP causes or induces people to substitute the services provided by the program for services formerly provided by volunteers, friends, family, or self; and (3) the extent to which the program causes any changes in funding levels for nonmedical services. The evaluation began in September 1980, and will extend through 1984. Periodic information reports will be submitted to HUD and AoA throughout the life of the contract.

B. HOUSING POLICY OPTIONS

In addition to the policy debate surrounding the immediate financing difficulties faced by the section 8, section 202, and public housing programs, there was considerable discussion about the advisability of continuing these rental housing production programs in the future. A variety of public and private sector options for meeting the housing needs of elderly homeowners as well as renters received special attention in 1981, and can be expected to receive serious consideration by the Congress in 1982.

1. VOUCHERS

Under the section 8 rental assistance program, a portion of the program's funding is used to support low-income tenants in existing housing units. This "subprogram" of the overall section 8 program is administered by HUD-designated local public housing agencies. The agency is often the local public housing authority but may also be any other public agency including a municipality.

Each designated public housing agency is given an allocation for existing housing units and is responsible for informing prospective families about the program; processing their applications; certifying their eligibility; encouraging owners to make units available and inspecting units for conformance with quality standards. The agency does not usually manage the units or perform maintenance functions unless the private ownership contracts with it to do so.

One purpose of creating an existing housing program under section 8 was to shift Federal emphasis away from new construction to the existing housing stock. It was hoped that the quality of the existing housing stock would be improved and that the average cost of Federal assistance, per unit and per household, would be reduced. As the section 8 program has evolved since 1974, funds have been increasingly used for new construction and substantial rehabilitation rather than for existing units.

While no major legislation revising the section 8 program was proposed in 1981, the use of a housing voucher, or housing allowance, program was seriously studied by the administration and the Congress as an alternative to all Federal rental housing production programs. It was, and will continue to be viewed in 1982, as a way to lower per unit costs so that either Federal spending can be reduced, or greater numbers of households can receive assistance without increasing spending.

In making such a policy shift, decisions would need to be made regarding: (1) Whether the owner or the tenant would receive the assistance payments; (2) whether the payment would be an income supplement or tied to housing through the development of quality standards and inspection mechanisms; and (3) if the payment were tied to housing, whether there would be maximum rents or a maximum allowance with the tenant permitted to pay more. A decision would also need to be made as to the amount of the allowance and whether it would be available to all who meet the income eligibility requirements or limited by criteria other than income.

Advocates of housing vouchers emphasize the lower costs that would result from assisting low-income households meet their housing in this way. Aside from controlling costs, vouchers are promoted as a mechanism for assuring equity among the poor since more families could be assisted than if new construction were subsidized with the same amount of funds. It is also suggested that another form of equity could result if existing units were used that were of a quality not substantially higher than that of housing occupied by households with incomes just above the eligibility level.

Possible difficulties with a vouchering system that public policymakers would need to address include a lack of certainty about the ability of the private market to meet special needs of the elderly and handicapped; households restricted in mobility by discriminatory practices; and areas of the country with an insufficient number of adequate low-income rental units.

2. HOUSING ASSISTANCE BLOCK GRANTS

Although vouchering was perhaps the most publicly debated of housing options in 1981, housing assistance block grants were also a subject of serious discussion.

The concept of a housing assistance block grant was first recommended by a congressional study in 1971. In 1973, several Congressmen introduced legislation designed to replace housing subsidy programs with one block grant program. In 1974, a number of categorical programs related to urban development were combined into the community development block grant program. Housing programs, however, were not included because there was no budgeting device to provide the kind of long-term commitment deemed necessary to support assisted housing production. The housing block grant concept again was proposed by the Ford administration in 1976. Under that proposal housing block grants would have replaced all housing assistance programs including the section 202, section 8, and the public housing programs. This proposal was not adopted and in the Housing and Community Development Act of 1980 HUD was directed to produce a comprehensive study of the feasibility of a housing assistance block grant program due by March 31, 1981. In 1981, the deadline was extended to early 1982.

Proponents of the housing assistance block grant concept usually emphasize the importance of offering States and local governments maximum flexibility in administering their programs. Similar to any proposed housing voucher system, any housing assistance block grant proposal will need to consider a number of basic issues including: (1) Whether the block grant would serve as a substitute for all present housing assistance programs or as a more limited program used, for example, to stimulate housing production in defined areas of geographic and social need; (2) how to assure, without the kinds of budgetary commitments made today, the long-term financing required for housing construction and rehabilitation programs; (3) the extent to which funds would be needed by localities for necessary startup costs associated with hiring persons knowledgeable in housing, mortgage finance, and program administration; (4) whether or not to establish Federal eligibility requirements for housing assistance with a priority for the elderly and handicapped; (5) what criteria would be used to determine which localities would receive block grant funds and how much they would receive; and (6) whether adherence to a number of Federal policies, such as environmental goals, efforts to promote racial and economic desegregation, and minimum physical standards would be mandated. The upcoming HUD report on the feasibility of a housing assistance block grant program should address most of these issues in detail.

3. SHARED HOUSING

Many communities in our Nation have a severe shortage of affordable rental housing. Older persons often are hard pressed to discover how to survive in such communities. Shared housing, or shared living as it is sometimes called, is a living arrangement in which two or more unrelated people live together, each having their own private space but sharing common spaces such as the living room, kitchen, dining, and laundry facilities. Shared living is primarily for active older persons who have no need for constant medical attention, daily prepared meals, or nursing assistance. By pooling their personal and financial resources and sharing a house or an apartment, these individuals can live independently in their communities. As the cost of adequate housing continues to rise, shared living is emerging as an increasingly attractive and economical option for older people on fixed incomes.

Most shared housing arrangements have been developed within the past decade. There are presently 70 shared housing projects for the elderly throughout the country. In the past the development of these projects has been a slow process. It has often been initiated by older people and augmented by others of all ages who are interested in developing alternative housing choices for themselves and the elderly. Important ingredients of a prosperous arrangement seem to be a small group size in combination with the flexibility and active participation of the residents. Space, privacy, location, and physical amenities also seem to be critical factors for success as is the project's ability to draw on existing community networks (churches, architects, lawyers, neighbors, etc.).

Although there are some common elements employed in each project there is no one "right" model for shared living. The format varies as the people vary and is planned according to the needs and preferences for whatever the group decides it wants. Two examples of successful projects follow:

In 1974, the Boston chapter of the Volunteers of America (BVA) found itself with an unused house when funds were not available to operate a planned home for adolescent girls. Owned by the volunteers since 1970, the building was located in a quiet residential neighborhood, and was once a lodging house. The BVA director thought it might be used to house older persons who could benefit from a group residence. McCrohom House opened in 1976 with a house manager and supportive social services for the residents. It is running well and has been accepted by the local community.

Until the summer of 1976, an older woman named Helen Perier ran a boarding house for seven older men and women in Somerville. When she learned that the house was to be sold by its owner, Ms. Perier looked for and found an apartment to share with them. They pool part of their incomes to cover major expenses such as food and rent. Ms. Perier acts as the coordinator. She maintains contact with outside agencies and businesses for needed services, handles financial matters, and deals with emergencies. Use of their outdoor patio and homemaker and home health aide programs keep the group in touch with their neighborhood.

Sponsors of shared living projects have been as creative in their search for finances as they have been in developing the projects. Development funds have been obtained with bank loans, loans from city governments, business contributions, sponsor contributions, community development block grants, church and community contributions, and private philanthropy. Rent and service funds have been financed from social security payments, supplemental security income (SSI), CETA funds, title XX, food stamps, the Older Americans Act, and church and family donations. Many of the existing projects have experienced major difficulties in obtaining these funds. For instance, SSI payments often have been incorrectly reduced when individuals move into group homes because the value of services provided to residents in the home was determined to be income. Because all residents of a shared housing project were treated as family for purposes of determining eligibility, some have been denied food stamps. There is also a definitional problem being confronted by shared living projects on a local level. Each municipality or community establishes its own definition of "family." Because local zoning boards often view shared projects as boarding homes, the projects are often ineligible for occupancy under local zoning codes.

In January 1981, Boston's shared living project, several national church demonstrations, and the Gray Panthers united to establish a national housing organization to promote shared living. Its office, based in Philadelphia, is functioning as a center for technical assistance, research, and education. In its first year, the shared housing project worked to promote shared housing at the Federal and local levels of government. Federal legislation was drafted to address the benefit disincentives with regard to SSI, food stamps, and section 8 assistance. The purpose of the legislation is to insure that elderly persons who live in shared housing are not subject to any undue loss of these benefits as a result of residing in a shared household on the local level. The shared housing project also conducted a survey of 352 communities' zoning laws to determine how they affect potential shared housing projects. The study documented the difficulties shared households encounter with zoning ordinances. It was discovered that less than 20 percent of the municipalities surveyed had laws that would permit a shared living. As a result of these findings, the shared housing project plans to release a report in April with the official findings of the survey as well as several examples of model zoning ordinances for use by local zoning boards.

4. Home Equity Conversion Plans

It is increasingly acknowledged that the homes of older Americans are their most common and most valuable asset. The most recent statistics indicate that of the three out of every four elderly persons who own their own homes, 80 percent do not have a mortgage. Equally as significant, older homeowners are concentrated in the low-income class. For example, 6 out of every 10 elderly single homeowners have incomes of $5,000 or less.

In recent years a great deal of attention has been given to the development of financial arrangements that could give these and other aged homeowners the opportunity to convert part of their equity into cash without having to leave their dwellings More commonly known as home equity conversion plans (HECP's), the goal of such financial arrangements is to relieve the severe budget constraints that are now a part of daily life for many aged homeowners. Older persons often do not wish to sell their homes to obtain cash, and even when they do, often cannot easily find suitable new housing. HECP's could offer a choice to these elderly persons facing costs of necessity-heavy budgets that have grown proportionately faster than their incomes for items such as property taxes and utilities. They could also provide funds to allow older persons to pay for needed support services, home maintenance, and other needs.

Prior to the development of the concept of home equity conversion, the only source of equity borrowing available to older Americans was through the traditional financial institutions at high rates and short terms. As the HECP concept has developed, a variety of models have emerged in both the private and public sector which are designed to meet a variety of needs. However, there are two distinct types of plans—debt plans and equity plans—that these models are based on. *Debt plans* allow an older homeowner to borrow against home equity with no repayment of principal or interest due until the end of a specified term of years, or until the borrower sells the home or dies. These plans can provide a single lump sum payout to the borrower, a stream of monthly payouts for a given term or—with the addition of a deferred life annuity—guaranteed monthly payouts for life. They are often referred to as "reverse" mortgages or reverse annuity mortgages (RAM's). Property tax deferral programs, popular in many States, are a form of debt plan in which older homeowners postpone paying their taxes until they sell their homes or die. In State-initiated deferral programs, the State pays the taxes to the local government for the homeowner. These payments accrue with interest as a loan from the State to the homeowner, secured by equity in the home. Upon death or prior sale of the home, the total loan is repaid to the State from the proceeds of the sale or the estate. *Equity plans* involve sale of the home to an investor who immediately leases it back to the seller. Land contract payments to the seller exceed rent payments to the buyer, so the older person receives extra cash each month. In addition, the buyer pays for taxes, insurance, and maintenance. A deferred annuity or other investment purchased with the downpayment can provide income beyond the land contract term. These plans are also referred to as "sale/leasebacks."

The basic theoretical forms of HECP's have been developed for several years. In general, however, workable instruments have yet to become widely available to the public. Private sector HECP's have been sporadic and short-lived. One reason for the lack of substantial interest and development has been the fact that the combination of financial benefits and risks associated with the plans has not been sufficiently attractive to lenders or borrowers. While the volatility in interest rates in 1981 made development of plans even more difficult, progress was made. Two pilot projects, planned under the auspices of the State of Wisconsin's home equity conversion project, were launched in San Francisco and Buffalo. The San Francisco development fund's reverse annuity mortgage program is a comprehensive system for delivering reverse mortgages and sale leasebacks to older homeowners. Buffalo's Home Equity Living Plan (HELP), Inc., offers elderly homeowners immediate property rehabilitation as needed, a lifetime maintenance contract, payment of property taxes for life, and a monthly cash payment for life. In exchange the homeowner agrees to relinquish title at death.

At the end of 1981, a new home equity conversion plan model emerged from a private corporation, American Homestead, Inc., which is scheduled to become operational in 1982. The plan has been designed to attract the interest of the private financial market. Under the plan older homeowners would receive monthly checks ranging from $100 to $500 as an income supplement until the homeowners asked to have them stopped or until the owners move, sell their property, or die. When the payments end the homeowners or their heirs would owe the dollar amount of the monthly checks; deferred interest computed at a fixed rate slightly below what was prevailing in the mortgage market at the time the original payment contract was signed; and a percentage of the increase in the resale value of the house since the date of the original contract. All loans to property owners would be secured by first mortgages against their homes. Private sector financial markets are expected to be interested in the plan because it minimizes their risks by "pooling" the mortgages into packages of 1,000 loans apiece in order to cut the risks of excess payments to borrowers whose property values don't go up as expected, or who live for longer than the average person in their age bracket. To further reduce risks, the amount of the monthly payment would be tied to the age and sex of the homeowner, the amount of existing equity in the dwelling, and the amount of future appreciation the owner contracts to share. At the close of 1981, the consistency of the plan with Federal Home Loan Bank Board rules and regulations was still under review. The plan is also being studied in detail by the Wisconsin home equity conversion project.

Consumer safeguards for those participating in home equity conversion plans was a subject of continuing discussion in 1981. A paper prepared by Maurice Weinrobe of Clark University, emphasized that the "most common problem that falls under the heading of consumer safeguards is that of disclosure" and that virtually all arrangements "that allow the elderly to tap home equity will be difficult to understand." In addition, the launching of new HECP's in 1981 triggered new questions regarding the treatment of plan revenue by Federal and State systems of taxation and public benefit programs such as food stamps, supplemental security income, and low-income energy assistance.

C. THE PRESIDENT'S COMMISSION ON HOUSING

On June 16 of last year, President Reagan appointed a 25-member Commission on Housing for the purpose of advising the President and the Secretary of Housing and Urban Development on national housing policy. The Commission was directed to submit its final report to the President and the Secretary by April 30, 1982, with an interim report to be submitted no later than October 31, 1981. The mandate of the Commission is to:

"Analyze the relationship of homeownership to political, social, and economic stability within the Nation; review all existing Federal housing policies and programs; assess those factors which contribute to the cost of housing as well as the current housing finance structure and practices in the country; seek to develop housing and mortgage finance options which strengthen the ability of the private sector to maximize opportunities for homeownership and provide adequate shelter for all Americans; and detail program options for basic reform of federally subsidized housing * * *"

The October interim report consisted of a broad set of housing policy principles and a framework for more specific deliberations. It also included recommendations for major reform of current federally subsidized programs. The Commission stated that its aim in presenting these limited recommendations was not to imply that other Federal housing policy issues are of lesser importance but rather to reflect "the immediacy of addressing federally subsidized housing programs so that * * * recommendations can be weighed as part of the fiscal year 1983 budget now being formulated."

The Commission's report emphasized that affordability of housing is the predominant housing problem among the poor, including the elderly poor. Using statistics from the Federal Government's 1977 Annual Housing Survey, it was concluded that for the very low-income elderly renter households, 57 percent have affordability problems. Only 7.9 percent were found to be living in inadequate housing. In comparing low-income elderly renters with other low-income renters, it was concluded that a somewhat larger fraction of elderly (35 versus 27 percent) have neither adequacy nor affordability problems.

Prior to developing its recommendations, the Commission adopted a set of general principles to serve as a guide in addressing the Nation's housing needs. Those principles are as follows:

"Achieve fiscal responsibility and monetary stability in the economy.

"Encourage free and deregulated markets.

"Rely on the private sector.

"Promote enlightened federation with minimum Government intervention.

"Recognize a continuing role of Government to address the housing shelter needs of the poor.

"Direct programs toward people, rather than toward structures; and

"Allow maximum freedom of housing choice."

Consistent with the above principles, the Commission recommended that all federally subsidized housing construction and rehabilitation programs (section 202, section 8, and public housing) be replaced with a consumer housing assistance grant, or voucher, program. Eligibility for this new program would be limited to households with very low incomes (no more than 50 percent of the area median for a family of four) in order to target assistance to those with the greatest need. Program benefits would not be available to all income-eligible households. Within each eligible income group, priority assistance would be based on income and criteria such as living in inadequate housing, paying rent in excess of 50 percent of income, or suffering involuntary displacement. Unlike today's low-income housing programs, the voucher system would not be designed to stimulate the production of new housing. To increase the supply of housing where needed, the Commission recommended that Congress permit the construction of housing with Federal funds channeled to local governments through the community development block grant program. At present, such funds may not be used for the construction of new housing. To further encourage the private sector's response to selected housing needs, the Commission recommends that the owners of residential rental structures receive an investment tax credit for rehabilitation expenses. In addition, options for State and local agency tax-exempt financing are still under review.

The interim report did not specifically focus on the special housing requirements of the elderly and the market's ability to respond to these needs. After discussing the need to more carefully explore these issues with several elderly interest groups, the Commission's Committee on Housing Programs held a hearing on this subject on December 16, 1981. Testimony was received from the Ad Hoc Coalition for Housing for the Elderly, American Associations of Homes for the Aged, the American Association of Retired Persons/National Retired Teachers Association, cochairman (James N. Broder) of the Housing Alternatives Committee of the White House Conference on Aging, Volunteers of America, National Conference on Catholic Charities, National Council of Senior Citizens, and the B'nai B'rith Senior Citizens Housing Committee.

Chapter 9

ENERGY ASSISTANCE AND WEATHERIZATION

OVERVIEW

Since the Arab oil embargo of 1973, the rising cost of energy has placed a financial burden on all Americans, but particularly on the elderly and those with low incomes, who consume relatively less energy than other households but pay a larger portion of disposable income for fuel.

The two major Federal programs providing energy assistance to the elderly are the low-income energy assistance program (LIEAP) and the weatherization program. Both initiatives have undergone repeated modifications, in response to apparent deficiencies in the programs.

In early 1981, the administration introduced proposals to redesign energy assistance by replacing the low-income energy assistance program with an energy and emergency assistance block grant giving States "complete flexibility in delivery of fuel assistance and other emergency services to meet citizen needs." The block grant would leave eligibility and payment levels and types of assistance entirely at the discretion of the States. In addition, the administration proposed to repeal the low-income weatherization program and include those activities among the options that local governments could finance through the Department of Housing and Urban Development (HUD) community development block grant or the energy and emergency assistance block grant.

The Special Committee on Aging held an April 9, 1981, hearing on "Energy and the Aged," which heard testimony on the problems and benefits of prior years' programs and expert evaluation of the administration proposals.

The legislation that was finally enacted under the Omnibus Reconciliation Act of 1981 authorized $1.875 billion for the Low-Income Home Energy Assistance Act in each of fiscal years 1982–84, with benefits targeted to the elderly and those in greatest need.

No reauthorizing legislation was passed for the weatherization program, however, and several bills are pending at this writing. The DOE weatherization program remains in place, funded at a level of $144 million.

A. NEED FOR ENERGY ASSISTANCE

Since the Arab oil embargo of 1973, the cost of energy has been steadily and substantially rising. A barrel of imported oil that cost $3.67 10 years ago, cost $34 at the end of 1981. OPEC price hikes, the revolution in Iran, and the decontrol of oil prices have all contributed to this 900-percent rise. For the consumer, fuel oil costs $1.24 per gallon, compared to 19 cents per gallon in 1971. Decontrol of natural gas by 1985, and rising electricity costs, will further exacerbate this trend.

The following estimates of average consumption for single family detached housing, prepared by the Department of Energy, indicate the steady rise of energy costs, regardless of region and fuel source.[1] Actual dollar amounts may vary with different surveys, but the increasing trend is consistent.

TABLE 1.—ESTIMATED AVERAGE COST OF HOME HEATING

Census region	1980	1981 (projected)	1982 (projected)
Fuel oil/kerosene:			
Northeast	$1,000	$1,270 to $1,370	$1,520 to $1,890.
North-central	1,040	$1,330 to $1,440	$1,590 to $1,980.
South	530	$670 to $730	$810 to $1,000.
West	730	$930 to $1,000	$1,110 to $1,380.
Natural gas:			
Northeast	530	$630 to $660	$710 to $750.
North-central	560	$660 to $690	$740 to $780.
South	300	$360 to $370	$400 to $420.
West	350	$410 to $430	$460 to $490.
Electricity:			
Northeast	690	$760 to $820	$820 to $910.
North-central	730	$820 to $870	$870 to $980.
South	350	$390 to $420	$420 to $470.
West	470	$520 to $560	$550 to $620.

Department of Energy statistics for 1979–80 indicate that elderly (age 60 and over) households heat with the following fuels—natural gas: 54.7 percent; electricity: 21.2 percent; fuel oil and kerosene: 20.9 percent; liquid gas: 3.1 percent.[2]

The burden of rising fuel costs is especially severe for low-income households for two reasons. First, they pay a higher proportion of the household budget for home energy, and second, their real incomes have consistently failed to keep pace with energy inflation. The Community Services Administration has estimated the median income U.S. household spends up to 8 percent of its income on home energy costs. But many low-income households spend about 30 percent of their household budget on heat and light. Congressional Budget Office figures estimate different percentage expenditures, but still show the poor paying almost four times as much of their income on fuel as median income households.

In the coldest parts of the Northeast and North Central States, many low-income households spent more than 35 percent of their income on energy in the winter of 1980–81.

Yet, the poor use far less energy than the average American. The Congressional Budget Office estimates that in fiscal year 1981 the poor used 43 percent less home energy than the well-to-do. At the same time, the energy used by the poor does them comparatively less good, because their homes, appliances, and cars are often less efficient than the U.S. average. Other factors increase the poor's energy disadvantage. For example, utilities charge higher unit prices for smaller

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[1] The sources of all statistical information in this chapter, unless otherwise noted, are the Office of Weatherization, Department of Energy; and the Office of Energy Assistance, Department of Health and Human Services.

[2] Source: Residential Energy Consumption Survey, Energy Information Administration, Department of Energy.

TABLE 2.—ESTIMATED AVERAGE ANNUAL HOUSEHOLD EXPENDITURES ON HOME ENERGY, BY INCOME CLASS AND REGION, FISCAL YEAR 1981

	Estimated average expenditures on home energy	As percent of income
Estimated household income:		
Less than $7,400	$740	15.2
$7,400 to $14,799	880	7.9
$14,800 to $22,099	910	4.9
$22,100 to $36,899	1,090	3.8
$36,900 or more	1,290	2.5
Less than 125 percent of poverty	790	13.5
Greater than 125 percent of poverty	1,020	3.7
Region:		
Northeast	1,290	5.2
North-central	1,080	4.4
South	900	4.0
West	700	2.9
Average, all households	1,000	4.2

Sources: Congressional Budget Office estimates, based on the Department of Energy's National Interim Energy Consumption Survey (NIECS) which covers the 12-mo period from April 1978 to March 1979. Income data derived from the Census Bureau's March 1978 Current Population Survey, updated using CBO economic assumptions.

amounts of usage, and utilities and heating oil dealers alike restrict credit and budget plans for the poor, so that the seasonal impact on the cash flow of these households can be crippling.

The situation is even worse for the low-income elderly because they are particularly susceptible to hypothermia—the potentially lethal lowering of body temperature—and to heat stroke. 2,000 deaths among older Americans were directly attributed to the heat wave of 1980, and experts estimate hypothermia may be the root cause of death for up to 25,000 elderly people each year.[3] To protect themselves against these serious threats to health, the elderly often should be using more energy than they do.

The offsetting effect of indexed benefits from SSI, social security, and other programs for the elderly poor cannot be precisely measured, but increases in home-energy costs clearly continue to outstrip benefits. First, energy is a far larger portion of a low-income household's budget than the weight it is given in the Consumer Price Index (CPI). Second, as chart I indicates, increases in the price of fuels have continued to outstrip increases in the CPI.

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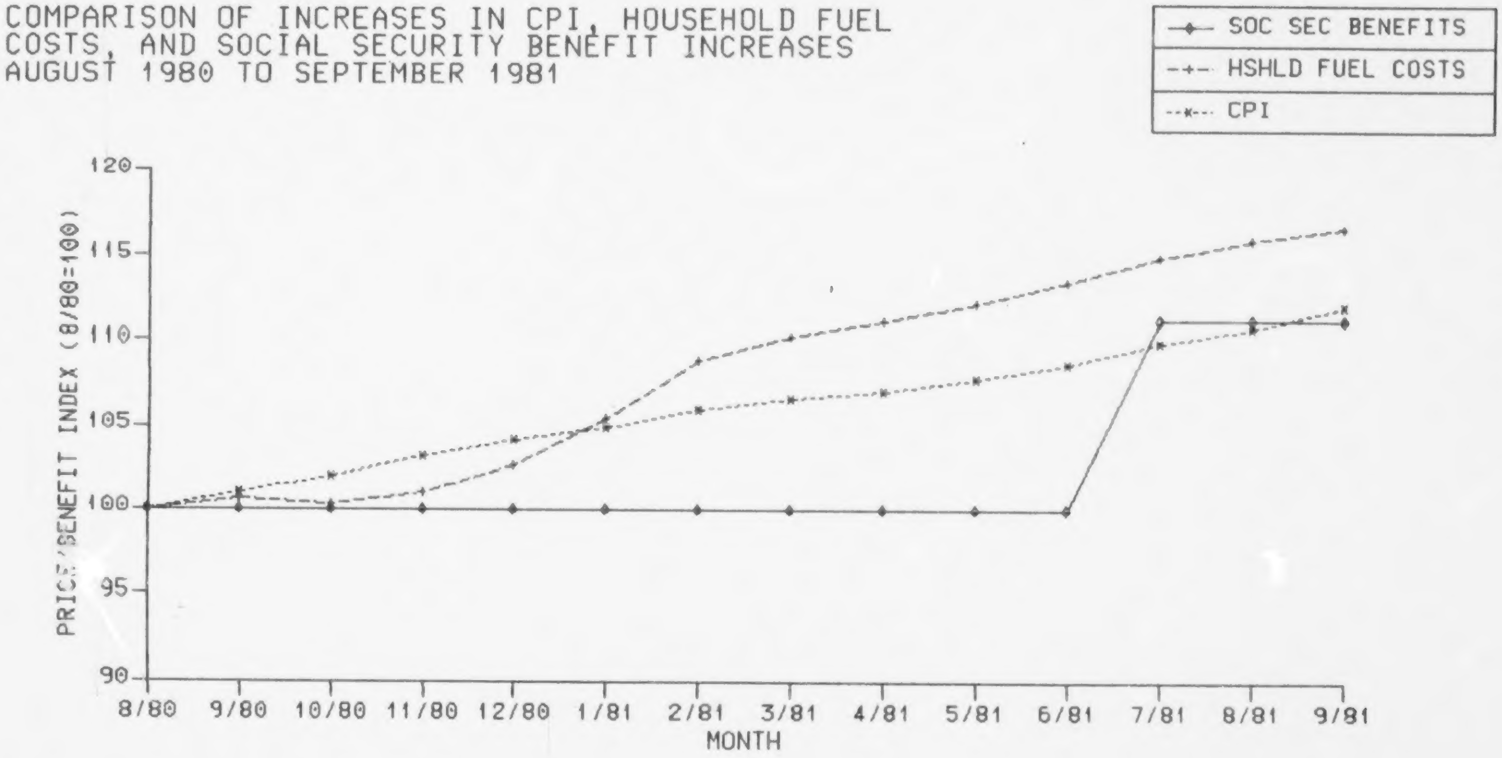
[3] Source : Center for Environmental Physiology ; Washington, D.C.

CHART I



COMPARISON OF INCREASES IN CPI, HOUSEHOLD FUEL COSTS, AND SOCIAL SECURITY BENEFIT INCREASES AUGUST 1980 TO SEPTEMBER 1981

Source: Bureau of Labor Statistics

In the 5 years from March 1976 to March 1981, energy costs rose 123 percent while the CPI increased 59 percent.

The cumulative effect of all these factors, according to a Harris survey, commissioned by the National Council on Aging and released in November 1981, is that 43 percent of the elderly today consider energy costs a very serious personal problem, ahead of crime, health, and general finances.

B. FISCAL YEAR 1981 PROGRAMS

Congressional efforts to ease the burden of high energy costs on the elderly have taken two principal forms. First, since 1977, Congress has appropriated money to provide aid for fuel-related emergencies to households at or below 125 percent of the poverty line. The low-income energy assistance program grew from $200 million in "crisis assistance" in 1977, to $1.85 billion in fiscal year 1981, distributed to States according to climate and needy population.

Second, in 1975 Congress enacted the emergency energy services conservation program, designed to provide energy relief to needy households by increasing the energy efficiency of their homes through insulation and repair. This developed into a $180-million weatherization program operated by the Department of Energy. A weatherized home consumes less energy because it wastes less, thereby keeping down fuel bills and, in turn, reducing demand for energy assistance.

1. The Low-Income Energy Assistance Program (LIEAP)

The program approved by the 96th Congress for energy assistance in fiscal year 1981 provided a total of $1.875 billion. Income eligibility for benefits was set at the annually indexed Bureau of Labor Statistics "lower living standard level," adjusted for family size and place of residence, or $14,044 for a household of four. One-person households could qualify at 125 percent of poverty as well, whichever is higher. Households receiving AFDC, food stamps, veterans pensions, or SSI benefits were automatically eligible, bringing the total eligible population to about 21 million households.

The Federal role has been to allocate money according to the legislated distribution formula; continue crisis assistance; and oversee State compliance. States have been responsible for designing and administering a plan that meets basic Federal guidelines.

TABLE 3.—HOME ENERGY—AVERAGE ANNUAL EXPENDITURES

[By household, below 125 percent of OMB poverty line]

State	Heating fuel	At February prices	At projected prices [1]
Alabama	Gas	$533	About $600.
Alaska	Gas	(2)	(2).
Arizona	Gas	511	About $590.
Arkansas	Gas	590	About $680.
California	Gas	511	About $590.
Colorado	Gas	581	About $670.
Connecticut	Oil	1, 696	More than $2, 000.
Delaware	Oil	1, 356	More than $1, 600.
Florida	Electricity	511	About $570.
Georgia	Gas	533	About $600.
Hawaii		(2)	(2).
Idaho	Oil	1, 428	More than $1, 700.
Illinios	Gas	695	
	Oil	1, 534	Over $1, 900.
Indiana	Gas	654	Nearly $1, 700.
	Oil	1, 341	
Iowa	Gas	651	About $750.
Kansas	Gas	601	About $690.
Kentucky	Gas	692	More than $770.
Louisiana	Gas	513	About $590.
Maine	Oil	1, 773	More than $2, 100.
Maryland	Oil	1, 356	More than $1, 600.
Massachusetts	Oil	1, 696	More than $2, 000.
Michigan	Gas	695	
	Oil	1, 534	Over $1, 900.
Minnesota	Oil	1, 602	Over $2, 000.
Mississippi	Gas	533	About $600.
Missouri	Gas	601	About $690.
Montana	Gas	581	About $670.
Nebraska	Gas	638	About $730.
Nevada	Gas	653	About $750.
New Hampshire	Oil	1, 773	More than $2, 100.
New Jersey	Oil	1, 670	Nearly $2, 000.
New Mexico	Gas	644	About $740.
New York	Oil	1, 851	More than $2, 200.
North Carolina	Gas or oil	599	Over $690.
North Dakota	Oil	1, 488	Over $1, 800.
Ohio	Gas	654	About $750.
Oklahoma	Gas	590	About $680.
Oregon	Oil	1, 196	More than $1, 450.
Pennsylvania	Oil	1, 356	More than $1, 600.
Rhode Island	Oil	1, 696	More than $2, 000.
South Carolina	Gas	533	About $600.
South Dakota	Oil	1, 488	Over $1, 800.
Tennessee	Gas	599	About $690.
Texas	Gas	513	About $590.
Utah	Gas	568	About $650.
Vermont	Oil	1, 773	More than $2, 100.
Virginia	Gas	608	Close to $700.
Washington	Oil	1, 196	More than $1, 450.
West Virginia	Gas	733	More than $840.
Wisconsin	Oil	1, 602	Over $2, 000.
Wyoming	Gas	581	About $670.
District of Columbia	Oil	988	Close to $1, 200.

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[1] Projected prices based on rate of increases in prices from February 1980 to February 1981. Oil prices have increased 23 percent and other fuels 15 percent during that time.

[2] Not available.

Source: The Greer Partnership for the National Council of Senior Citizens, April 1981.

A. EFFECTIVENESS OF SERVICES TO ELDERLY: 1980-81

The fiscal year 1981 low-income energy assistance bill, sponsored by all the members of the Aging Committee, provided that elderly and handicapped citizens must be given priority in outreach. This provision is intended to assure that elderly and poor households are aware help is available, avoiding unnecessary shutoff of services. The precise impact of this provision on the target population has not been evaluated thoroughly by the Department of Health and Human Services (HHS). Chart II indicates the percentage of applicant households with elderly members, which gives some indication of how successful State outreach efforts have been.

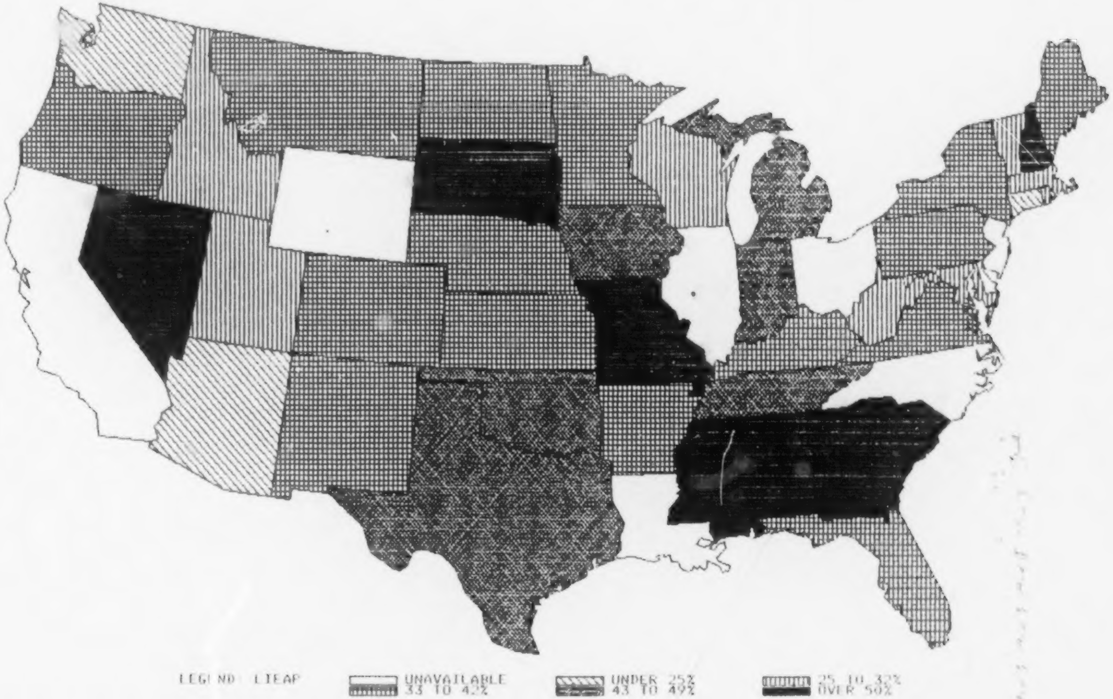
Though States have come up with a variety of means for implementing this requirement, several aging organizations have suggested that Older Americans Act programs, especially meal sites, have not been used enough for outreach.

Preliminary HHS data shows that through the end of the third quarter of fiscal year 1981 (June 30, 1981), 42 States reported 1,304,290 homes with an elderly head of household had been served. This accounted for 39 percent of all households participating. HHS is currently working on calculating the percentage of eligible elderly households that total represents. It is important to note that the 39-percent figure represents only elderly headed households that qualified on an income basis. Many States made automatic payments to SSI, AFDC, and food stamp households with elderly members, and these elderly participants are not reflected in this total. The actual percentage of elderly served is probably higher than 39 percent. Chart III shows the sources of income for LIEAP participants in one State, Pennsylvania. It demonstrates that of Pennsylvania's 325,000 LIEAP beneficiaries, social security benefits represent the single largest source of income, which in turn suggests successful targeting of the elderly.

CHART II

LOW INCOME ENERGY ASSISTANCE PROGRAM PERCENTAGE OF APPLICANT HOUSEHOLDS WITH ELDERLY MEMBERS

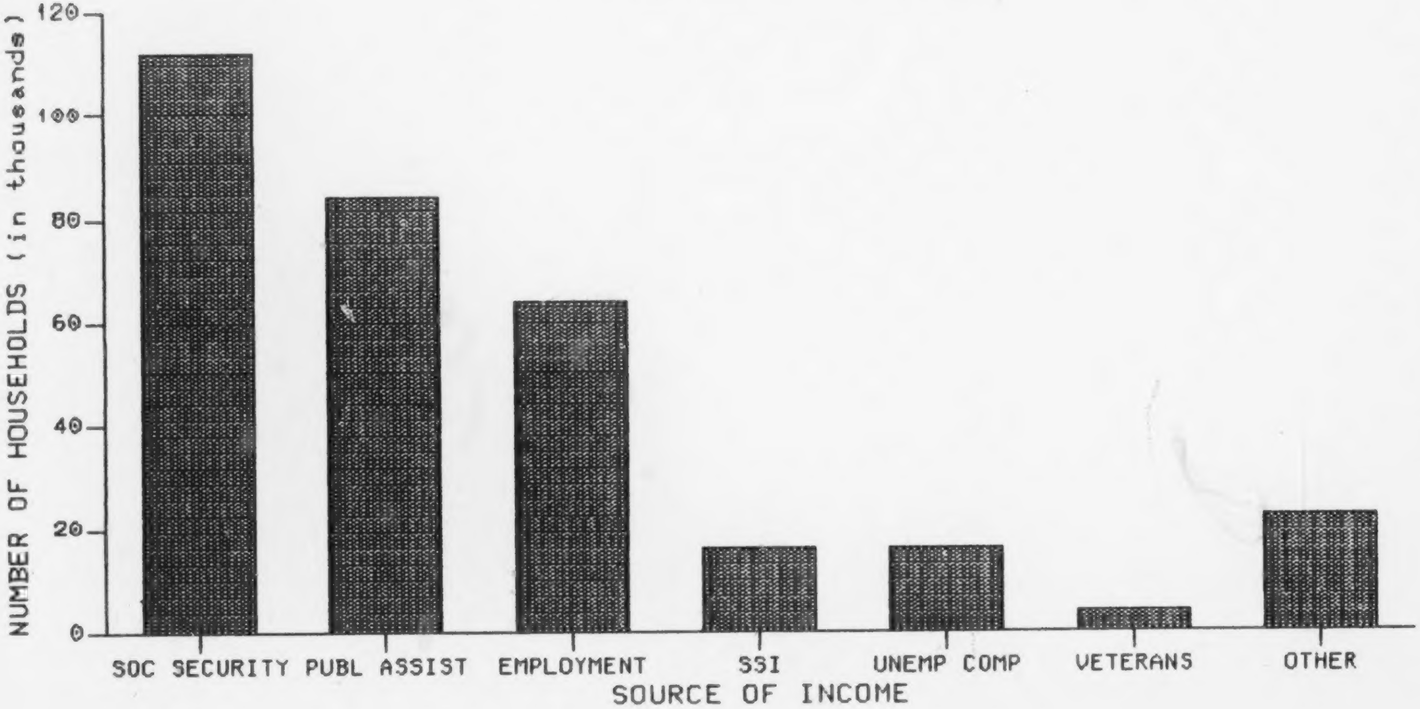
OCTOBER, 1980 – JUNE, 1981


LEGEND: LIEAP
UNAVAILABLE
33 TO 42%
UNDER 25%
43 TO 49%
25 TO 32%
OVER 50%

Source: Office of Energy Assistance; Department of Health and Human Services

CHART III

PENNSYLVANIA HOUSEHOLDS
RECEIVING LOW INCOME ENERGY ASSISTANCE
BY SOURCE OF INCOME



Source: Commonwealth of Pennsylvania, Department of Public Welfare

B. PROBLEMS WITH FISCAL YEAR 1981 LOW-INCOME ENERGY ASSISTANCE PROGRAM

An informal survey undertaken by Senate Aging Committee staff revealed widespread agreement among State program officials on several problems with the LIEAP implementation.

First, delays in authorizing and funding the program made it hard for States to plan adequate programs or prepare their agencies fast enough. There is an overwhelming need for long-term planning.

The section of the program providing assistance to operators of subsidized buildings proved unworkable. The administrative and financial framework in which building operators work was often incompatible with the measures of energy costs, needs, and benefits which apply to all other recipient categories. Substantial Federal and State resources were wasted because of these provisions.

The requirement that vendors refrain from service shutoffs for certain periods caused some vendors to leave the program. It also resulted in exemptions of most oil suppliers, and in numerous cases, conflicted with or added to State shutoff restrictions governing all regulated utilities. This provision is deleted in the fiscal year 1982 program.

States need more flexibility to set money aside for emergencies. Many officials believe appropriations should carry over for 2 years so the States with an unusually mild season will not be forced either to spend irresponsibly or be penalized. It was also felt that some weatherization activities should be permitted as part of LIEAP although opinion varied on how much of the funds should be used for this purpose.

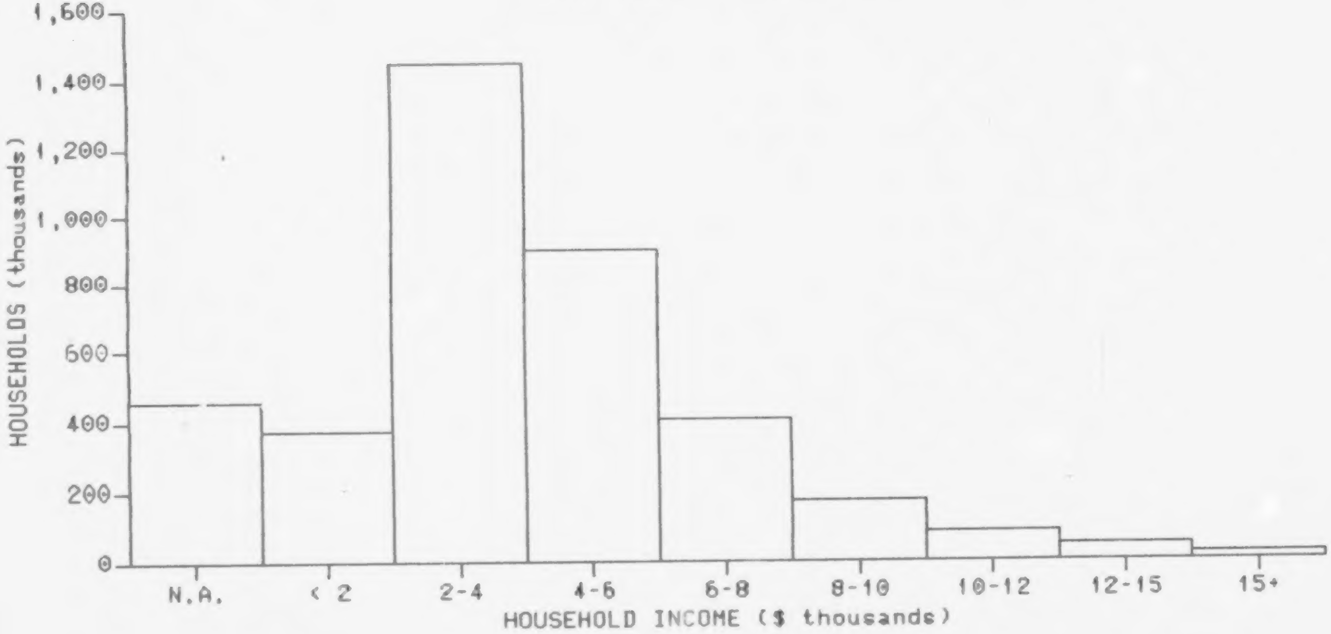
State officials complained about confusing reporting requirements and excessive data demands. Some officials in warmer States complained about lack of clarity regarding reservation of funds for cooling expenditures; Western and Sun Belt States contended the heating-based formula is unfair and should at least contain a cooling degree-day factor: Rocky Mountain States objected to the use of Bureau of Labor Statistics (BLS) standards of eligibility because BLS measures costs in only two metropolitan areas in eight States. This, too, has been amended in the current program.

Several States complained about the limitation on administrative costs and the requirement for State matching funds. In small States with small allotments, administrative cost allowances are far below the costs imposed by the relatively higher costs of small programs (i.e., in a small program administrative costs are relatively high in proportion to the State's total grant). In other States, legislatures must act on any Federal matching program and their legislative sessions are too short for last minute Federal bills.

Despite these technical difficulties, the LIEA program has effectively served as a reliable source of much-needed assistance, and currently covers between 15 and 50 percent of participants' fuel bills, depending on fuel type, size of household, and State. As chart IV shows, it remains consistently targeted to those most in need. Reauthorizing legislation has responded to many of the above problems.

CHART IV

LOW INCOME ENERGY ASSISTANCE
APPLICANT HOUSEHOLDS BY INCOME
OCT. 1980 - JUNE 1981



Source: Office of Energy Assistance, Department of Health and Human Services.

2. DOE WEATHERIZATION ASSISTANCE PROGRAM

The Department of Energy (DOE) weatherization program is authorized by title IV, part A, of the Energy Conservation and Production Act of 1976, as amended in 1978 and 1980. Persons below 125 percent of poverty are eligible for assistance; priority is given to the elderly and handicapped. Weatherization assistance is designed to help those households that simply lack the cash or credit with which to respond to the current incentives for conservation. The benefits of the program are threefold. First, improving the energy efficiency of a home provides greater comfort with less consumption. Second, weatherization improvements are permanent; energy savings accrue each year on a one-time investment. Third, reducing consumption reduces fuel bills for those low-income households, thereby lessening the demand for LIEA funds. The program has been administered through State energy offices, State economic opportunity offices, and locally through community action agencies (CAA's) and others. There has been a "preference" but not a mandated priority for CAA's, which remain the principal delivery system. Funding was $189 million in fiscal year 1981 under the continuing resolution.

Regulatory and legislative changes in 1980 simplified the program, gave added flexibility in service design to States, and expedited the completion of backlogged cases. The changes were largely successful; the pace of weatherization activities accelerated significantly and all appropriated funds were committed. DOE reports 249,000 units were weatherized in calendar year 1981, bringing the program's total production to 801,000 homes. In calendar year 1981, 165,000 elderly people were served; 518,000 older Americans have been served during the life of the program. The vast majority of all units completed are in nonurban areas.

The weatherization assistance program provides materials for insulation and repair up to $1,000 per unit. Labor is to be provided by other sources, such as the Comprehensive Employment and Training Act (CETA) or State and local resources. However, a waiver can be granted if no other labor is available, with the total cost limited to $1,600.

The program has been criticized by the Congress and the General Accounting Office for delays, poor performance, and management problems. One of the key obstacles to program success was the requirement that weatherization funds be used primarily for materials, which left inadequate funds for labor and program administration.

Using public manpower, with weatherization programs providing materials, presented another obstacle, chiefly due to the lack of local manpower and disincentives to work on these short-term projects. Lack of coordination between DOL and DOE worsened this problem.

A. PROBLEMS IN WEATHERIZATION PROGRAM

A few fundamental problems persisted despite the improvements through 1981:

—Problems in upgrading multiunit rental housing, due to both difficulty in obtaining landlord agreements and identifying the most effective weatherization measures.

—No formal strategy for concentrating on homes with largest energy-saving potential or greatest need.

—Inflexibility in the list of approved measures.

—Inadequate resources. The National Bureau of Standards has identified 10 million housing units occupied by eligible households and in need of weatherization. At the current average cost of $1,000 per unit and fiscal year 1981 funding levels, the program would require over 40 years.

—Lack of coordination with fuel assistance. Committee staff have found only 11 States with a combined application procedure and less than half a dozen more with automatic weatherization applications for eligible energy assistance recipients.

In general, despite delays in funding, the weatherization program has maintained its productivity. The percentage of elderly participants has risen steadily. In the fall of 1981, the General Accounting Office presented DOE with several of the above criticisms, and the Department has taken steps to alleviate them. A recent study by the Consumer Energy Council of America found the weatherization effort to be particularly successful in three critical areas.

First, in terms of energy savings, an average investment of $968 reduced energy consumption 26 percent, savings almost as good as those achieved in pure research conditions. Second, in economic terms, low-income weatherization is more labor intensive than any fuel production option, creating more jobs per dollar invested. Finally, as a social benefit, weatherization results in savings to low-income households of up to 27 percent in their fuel bills; this amounts to 4 percent of their average annual income. This benefit will increase as home fuel prices continue to increase.

C. ADMINISTRATION PROPOSAL

In the spring of 1981, the Reagan administration introduced legislative proposals to redesign energy assistance. In place of LIEAP, the administration proposed an energy and emergency block grant, giving States "complete flexibility in delivery of fuel assistance and other emergency services to meet citizen needs." The block grant would leave eligibility, levels of payment, and types of assistance provided entirely at State discretion, so long as the money was spent on energy. The low-income weatherization program would be repealed and those activities included among the options that local governments could pursue under the HUD community development block grant. The energy and emergency block grant was to be funded at $1.4 billion; no money was set aside solely for weatherization.

The administration favored the block grant approach in a variety of social service programs, reasoning that consolidation reduces the complexity and fragmentation of the current narrowly targeted categorical approach; with fewer Federal restrictions, States could formulate public policy that more accurately serves specific local needs.

The administration justified lowered funding levels in two ways. First, less Federal involvement reduces Federal administrative costs. Second, the reduction in program funding is deemed an essential part of the administration's economic recovery program, which in turn will benefit the elderly (and all others) by providing a sound economy for the Nation.

D. AGING COMMITTEE HEARING ON "ENERGY AND THE AGED"

For more than 10 years the Committee on Aging has been concerned with the acute problem of energy and the elderly. The committee has documented that some older Americans pay up to 50 percent of their incomes for home fuel. The committee has also been responsible for language in energy assistance legislation mandating priority of outreach for the elderly, and for oversight of the operations of these assistance initiatives.

In light of the administration's significant proposed changes in program design, the committee held an oversight hearing on April 9, 1981, entitled "Energy and the Aged." The hearing examined the performance of the fiscal year 1981 programs and considered options for future legislation. As committee Chairman John Heinz explained in his opening remarks:

> First, we want to explore whether funds under the proposed block grant should be targeted for specific populations or purposes to insure that the needs of the most vulnerable populations will continue to be met.
>
> Second, we are concerned about coordinating the energy assistance and weatherization programs. Through the weatherization program, it is possible that fuel costs in the future can be reduced, thereby reducing the cost of the energy assistance program and at the same time conserving precious energy resources.
>
> The third major issue is the amount of Federal resources that will be needed in the future to offset projected increases in energy costs themselves.

Senator Chiles, the ranking minority member, observed:

> The energy needs of this country will not disappear for some time * * * Until that time, Congress must provide some form of assistance to those who live in fear of the monthly utility bills * * * Normal heat and humidity can cause extreme discomfort and illness to persons afflicted with asthmatic and respiratory conditions or heart problems. To these people, many of whom are elderly, cooling is certainly not a luxury. It is a medical need * * * Rising utility costs are a burden on this entire Nation and the home energy assistance program was designed to serve all of the regions.

Senator Cohen, conscious of the need to address the high cost of Federal spending, warned against victimizing Americans in pursuit of economic goals:

> Although we must seek to make Federal energy assistance programs more cost efficient, we cannot ignore the questions that remain in the minds of elderly Americans throughout each winter. Where will the money come from for the next

> purchase of heating oil? Can I do without the medicine the doctor prescribed? Can I skimp on the nutrition I require? What life and death choices am I making? It is essential for this committee to consider proposals that will make the low-income fuel assistance program truly responsive to the needs of the elderly.

Senator Percy joined Senators Heinz, Chiles, and Cohen in emphasizing the importance of weatherization in permanently reducing household fuel consumption and progressively reducing the demand for fuel assistance:

> Utility costs are reduced (through weatherization) because energy is saved after homes are insulated and storm doors and windows have been installed * * * Weatherization of these homes is long-term investment for the Federal Government that can save billions of dollars. Energy costs are not going to come down, so unless we continue our efforts to conserve it, payments for energy assistance are going to continue to climb at rapid rates.

The hearing's first witnesses were David Stockman, Director of the Office of Management and Budget, and Linda McMahon, Commissioner for Family Assistance at the Department of Health and Human Services, the office responsible for administering the LIEA program. Both administration representatives supported the President's block grant approach, stressing the gains in responsiveness and efficiency that could be achieved through reducing Federal intervention. Other witnesses included elderly people who participated in the energy assistance and weatherization program, State level program administrators, and representatives of oil and gas suppliers. All found some significant fault with both the administration proposals and, to a lesser degree, with the current programs. There was unanimity, for example, on the need for a more coordinated package of weatherization services and fuel payments, as expressed by Jane Brown, a State program official from Minnesota:

> The combination of programs together makes sense. To continue to put heat in to a house which is not insulated, where there are broken windows, where there are leaks around the windows, does not make sense * * * Our aim is not just to pay the bills of the household, but to weatherize their dwellings, keep the heat in.

Witnesses also testified that the administration's weatherization proposal offered no adequate substitute for the existing DOE program in funding levels, resource targeting, or delivery of coordinated services. It was agreed that the current, successful system of local delivery for weatherization should not be changed in the ways proposed by the administration. The director of the Maine Oil Dealers Association gave as his first priority for improving the program:

> Build upon the existing foundation. Trained weatherization crews and administrative staff already exist. Millions of dollars of equipment has been purchased. Delivery mecha-

nisms are already in place and can be modified to become even more effective.

There was no consensus on designing an administrative mechanism for delivering a more coordinated weatherization-energy assistance program, but there was unanimity that, at the local level, both programs should be available through the same offices in a one-stop service. Witnesses unanimously suggested greater targeting of program elements in LIEAP than in the administration's proposal, but fewer restrictions than in fiscal year 1981 law. Specific recommendations included priority to elderly and handicapped, priority to the neediest, inclusion of nonwelfare poor, benefits related to fuel costs and family incomes, sufficient planning and reporting requirements to assure proper implementation, and a significant percentage of funds set aside for energy use only.

Most witnesses expressed deep concern about reduced energy assistance funding, and all called for increased weatherization funding.

The simplest and most moving testimony in support of these programs came from the elderly beneficiaries, those present at the hearing, and those who had contacted their representatives. One elderly woman wrote Senator Cohen: "Last week the (weatherization) crew came and did the most thorough and wonderful job of insulating my home. I was just overcome with the whole business since I will be saving fuel from now on. It would be an impossibility to keep this house if it wasn't for the help I get." And 93-year-old Mona Musser testified before the committee: "The only reason I am able to stay in my home is because of these programs."

E. FISCAL YEAR 1982 LEGISLATION

1. LIEAP

Various drafts of legislation to continue these programs through fiscal year 1982, attempted to address both problems with the fiscal year 1981 programs and the new administration's emphasis on a reduced Federal role. The first bill on energy assistance was a modified version of the administration's suggestions, introduced by Senator Jeremiah Denton (S. 1089). $1.78 billion would be made available to States for low-income households in need of energy assistance. All determinations of eligible population and form of aid to be offered would be left up to States.

Senator Lowell Weicker offered a bill (S. 1165) to reauthorize the fiscal year 1981 low-income energy assistance program with few substantive changes, and funded at $2.5 billion. This bill excluded some of the program's problem areas, such as building operators' payments and shutoff moritoria, but it retained Federal power to disapprove State plans.

Based on the Aging Committee's findings at the "Energy and the Aged" hearing, Senator John Heinz introduced an energy assistance block grant (S. 1189), which targeted assistance to the elderly and handicapped, gave priority to households with the highest fuel costs in relation to income, and assured coordination with weatherization.

States would be accountable for how their funds were spent, but in a simplified format. As Senator Heinz stated:

> We are convinced that these provisions will produce a more effective system for mitigating the impact of high energy costs on the poor because they assure a more careful targeting of the reduced funding levels available under our stringent budget limitations.

The legislation that was finally enacted into law as part of the Omnibus Reconciliation Act of 1981 was known as the Low-Income Home Energy Assistance Act. The act authorized up to $1.875 billion in each of the next 3 years (fiscal years 1982–84)—Congress finally approved an appropriation of $1.75 billion. Where consistent with efficient administration of the program, benefits are targeted to those in greatest need of energy assistance: The elderly and the handicapped; those having the highest energy costs in relation to income; and those having incomes below 150 percent of poverty or 60 percent of a State's median income. The new legislation provides additional economic security to eligible households by specifying that energy assistance payments cannot be counted as income for other Federal programs. Outreach programs, especially for the elderly and the handicapped, are required, as well as crisis assistance programs.

The law permits up to 15 percent of the block grant to be used for financing weatherization services. It mandates coordination between energy assistance payments and weatherization and it gives priority to agencies experienced in service delivery. Program audits by the Secretary of HHS are mandated.

On the other hand, State Governors are given substantial flexibility in designing and implementing programs. States will receive funding after submitting plans developed with full public participation. Funding can only be withheld if subsequent investigation reveals violations of the act. Governors may transfer up to 10 percent of the energy block grant to other social service programs, including those mandated under title XX of the Social Security Act.

2. WEATHERIZATION

No reauthorizing legislation was passed for the weatherization program. Three proposals were submitted; all are still pending before the Senate Energy and Natural Resources Committee. Senator William Cohen proposed an ambitious, 3-year program to weatherize 2.65 million low-income homes, funded at $650 million in fiscal year 1982, $1.54 billion in fiscal year 1983, and $2.2 billion in fiscal year 1984. States would have broad discretion to provide locally suitable programs. Senator Weicker introduced a $400-million consolidation of existing low income, State and local, and school and hospital weatherization activities into a single energy conservation grant to States (S. 1166). Priority would be mandated for the elderly and handicapped, and 65 percent of funds would have to be spent on weatherization.

In response to the administration's recommendation that S. 1166 be replaced with a less restrictive block grant, Senator James McClure introduced a bill (S. 1544) that would repeal and replace all existing categorical conservation grant programs and limit total funding to

$200 million per year. States would have no restrictions in regard to what programs need be funded.

While these bills are still under consideration, the DOE weatherization program remains in place, funded at a level of $144 million.

F. ISSUES FOR 1982

A number of issues raised during 1981 are likely to shape the debate over the need for energy assistance in 1982.

First, debate looms over whether decontrol of natural gas should be accelerated and, if so, whether that accelerated decontrol should be accompanied by a windfall profits tax similar to the one imposed on deregulated oil. If decontrol of natural gas is accelerated, the impact on the elderly and those with low incomes is likely to be dramatic. However, if decontrol of natural gas is accelerated, Congress could insist that the additional tax revenues be used in part to protect the elderly from its worst effects.

In addition, Congress may again debate whether there is to be any weatherization program. As mentioned previously, no specific funding has been reauthorized for this program, although several bills are pending at the end of 1981 which would provide such funding.

As for low-income energy assistance, again, the issue will be whether this program is retained in its present form, whether it will be replaced with a block grant, or whether the responsibility for the program will be turned over fully to the States as part of the New Federalism initiative put forward by President Reagan in his state of the Union address of January 26, 1982.

Part III

EMPLOYMENT

During 1981, the Congress placed increasing emphasis on the need to provide employment opportunities for older workers. The major factors contributing to this heightened interest in employment were:

—An increasing awareness in our society that older Americans are skilled, reliable, and productive workers and are a great resource to the Nation.

—The interest of older people themselves in a meaningful role in the social and productive life of our communities and our country.

—The financial problems facing social security and the realization that continuation of the present trend toward early retirement will seriously endanger the system's ability to meet benefit payments in the decades ahead.

—The impact of inflation on retirement income and savings which is making it increasingly difficult for many retired people to maintain their standard of living without some continued earnings from employment.

—The vast improvements in the health of older people, longer lifespan, and the recognition that work is beneficial to physical and mental health.

Today, there are nearly 26 million persons in the United States who are 65 or older. This figure is expected to increase to 36 million by the year 2000, and to 65 million by 2030.

These dramatic population shifts carry obvious economic and social implications and will require new policy directions in the future. In addressing the 1981 White House Conference on Aging, Senator John Heinz said:

> I believe you will agree that the central challenge to this Conference is not just to insure economic security or adequate health care services, as important as these are, but to recommend policies designed to endow older men and women with more genuine opportunities for self-fulfillment.

Surveys consistently show that there is a strong interest among older people in continuing some form of work after retirement. A Harris poll released on November 18, 1981, found:

—Among all those now working in the key preretirement age between 55 and 64, a majority of 79 percent are opposed to stopping work completely when they retire.

—73 percent favored greater availability of part-time work.

—66 percent favored job-sharing opportunities.

—68 percent favored a job involving a day or two a week to work at home.

—90 percent of all ages surveyed felt that nobody should be forced to retire because of age.

During the 1980's, skilled labor will be in increasing short supply as the relative number of younger workers entering the work force diminishes. This fact will challenge the American economy to find a way to tap the pool of older workers and to find ways to restructure working conditions and hours in order to retain and attract older workers who wish to remain productive.

The importance of earnings to the economic well-being of older persons is demonstrated by the fact that people 65 and older with employment earnings and no social security or other pension have a higher median income than any other subgroup. In 1978, the median income of couples 65 and older receiving employment earnings was $13,170, compared with $7,870 for couples with no earnings.[1]

Despite the expressed desire of older people for more flexible work opportunities and the importance of earnings from employment to an adequate retirement income, the trend toward early retirement among older male workers is now a well-established fact. One-third of all social security beneficiaries currently retire at age 62. Since the inception of early retirement, the number and percentage of persons of both sexes retiring early and receiving actuarially reduced benefits have steadily increased. In 1968, 48 percent of all new social security payment awards to men were to claimants under 65, compared to 61 percent in 1978. In 1968, 65 percent of all new awards to women were to claimants under 65, compared with 72 percent in 1978.

Should the trend toward earlier retirement continue, it will have a serious impact on the social security system in the decades ahead. A deficit is expected to occur in social security after the turn of the century primarily as a result of the retirement of the post-World War II "baby-boom" generation. No one can say for certain that the ratio of retirees to contributing workers will grow precisely as now forecast, but the basic trend to smaller families means proportionately fewer workers in the future. More frequent early retirement, combined with continued improvements in health, will therefore mean a dramatic increase in the retired population. The expected change in the ratio of workers contributing payroll taxes into the system to the number of retirees drawing benefits is expected to result in deficits after the turn of the century.

In addition, it should be noted that the Nation will need the productive contributions of older workers to maintain its standard of living in the future. Currently, the largest single group of people in the work force, comprising about 70 percent of those with jobs, are 44 years of age or younger.

The striking fact is that by the end of the 1980's that group will stop growing and actually start declining in actual numbers. Without unprecedented increases in productivity, the only way to maintain our standard of living will be to increase the size of the work force by better utilizing the talents, skills, and experience of older workers.

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[1] Bureau of the Census.

A. OLDER WORKERS IN THE U.S. LABOR FORCE: A PROFILE

1. The Older Worker Labor Force—September 1981

There are a total of 2,983 million workers over age 65 in the labor force—1,836 million of these are men and 1,147 million are women. There are 11,648 million workers between the ages of 55 and 64 in the labor force—7,115 million are men and 4,533 million are women. These older workers make up 13.4 percent of the U.S. labor force.

2. Labor Force Participation Rates For Older Workers

The U.S. labor force includes workers who are employed and actively seeking employment. The participation rate is the percentage of individuals in a given group (e.g., age group) who are in the labor force.

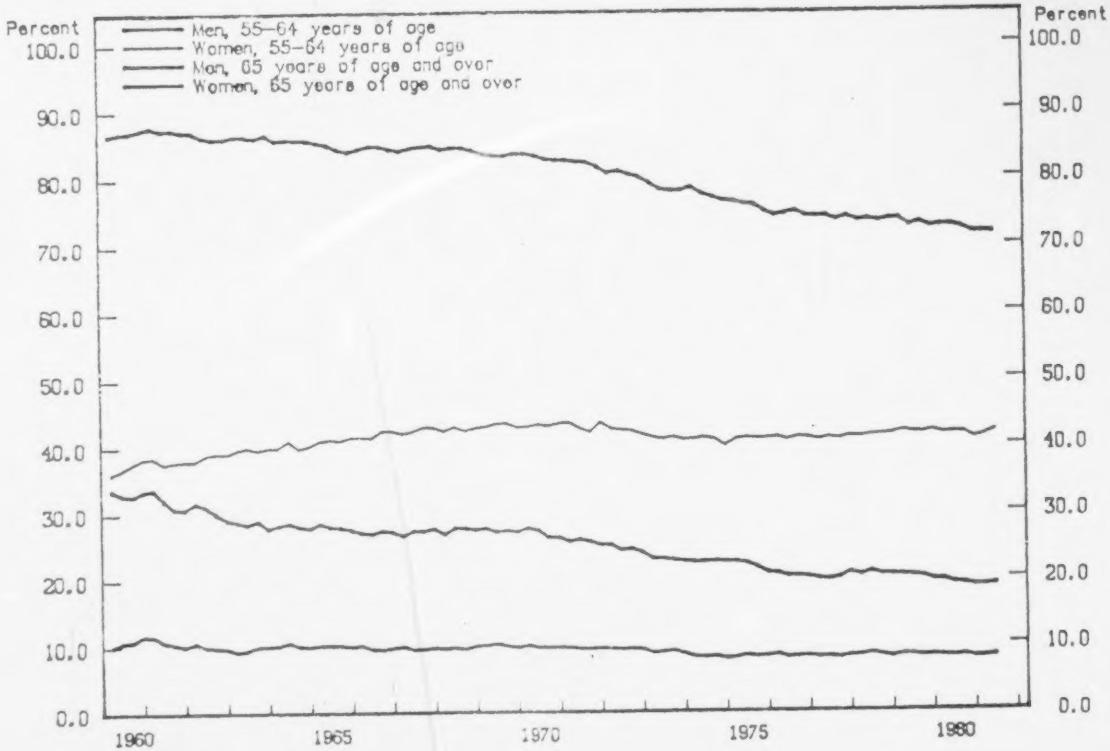
Labor force participation rates for men aged 65 and over has dropped from 34 percent in 1960 to slightly less than 20 percent in 1981. For men aged 55 to 64, the rate has dropped from 87 percent in 1960 to 72 percent in 1981.

The participation rates for women over age 65 was and still remains low. In 1960 slightly over 10 percent of this group was in the labor force. In 1981 that rate dropped to 8.1 percent. There has been a slight increase in labor force activity for women aged 55 to 64. In 1960, the rate was 37 percent. That has gradually risen to 41.5 percent in 1981. The following chart illustrates the labor force trends of older workers from 1960 to the present.

3. Trends Toward Early Retirement

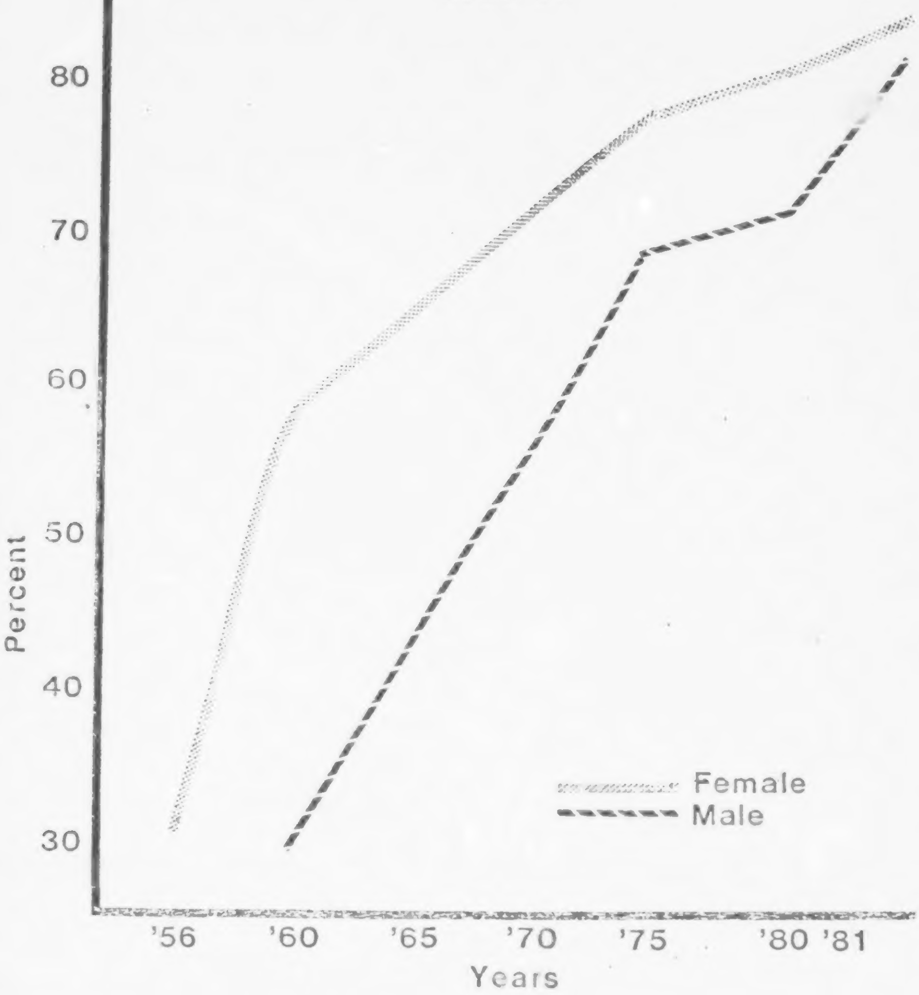
Data from the Social Security Administration illustrate the continuing trend to early retirement. The following chart shows the increasing percentages of individuals taking early retirement benefits at age 62. We cannot conclude, however, that all individuals receiving the early benefit are out of the labor force. Some may work until they reach the earnings limitation level ($4,440 between ages 62 and 65). They then may drop out of the labor force rather than be penalized $1 in benefits for each $2 earned.

Labor force participation rates of older workers, 1960-81



Bureau of Labor Statistics
September 1981

Awards To Retired-Workers For Early Retirement
1956-81

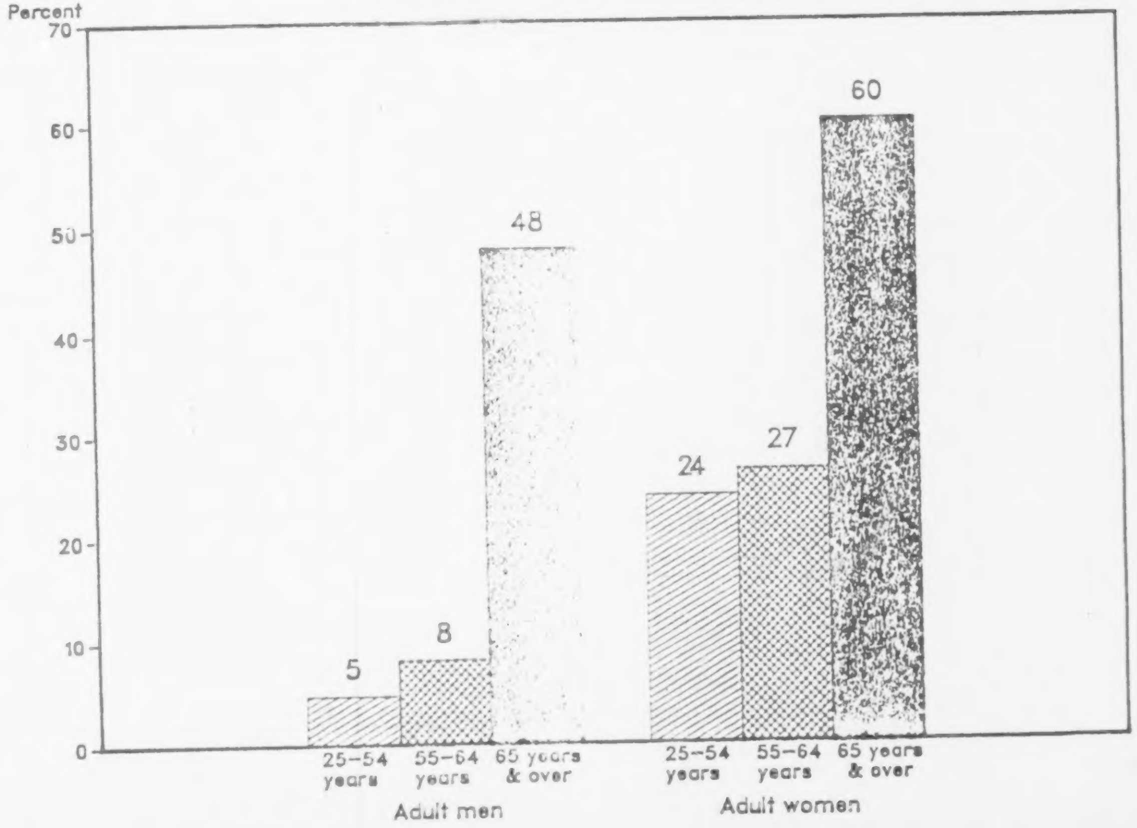


4. Part-Time Employment and Older Workers

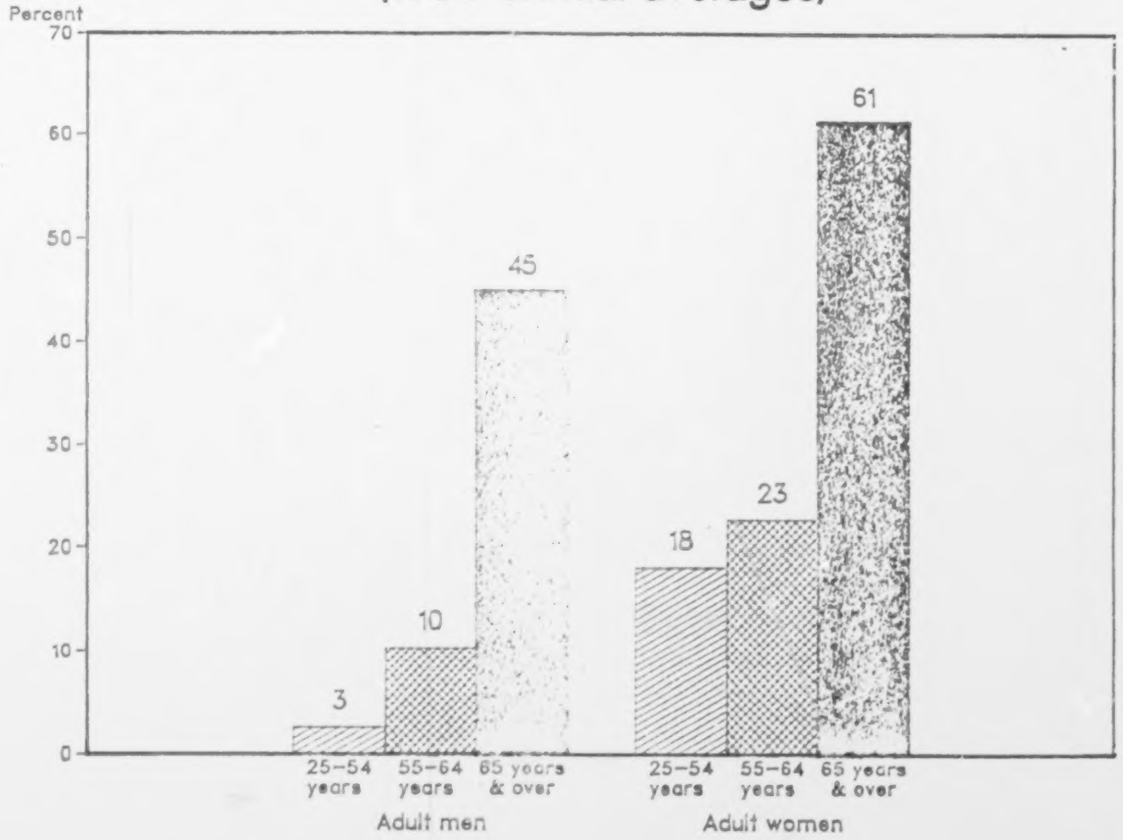
Part-time work is defined by the Department of Labor as ranging between 1 and 34 hours per week. Older workers, especially those age 65 and over, prefer and seek part-time work. In 1976, 710,000 male workers and 554,000 females over age 65 worked part time. By 1980, the number of men rose to slightly over 800,000—an increase of 11.2 percent—and for women to 614,000—an increase of 10.8 percent. The following charts illustrate the continuing interest of these older workers in part-time work.

It should be noted that popular surveys, conducted by groups such as Louis Harris Associates, underscore the growing interest in part-time employment among older workers. The Bureau of Labor statistics presented here offer stronger support of that trend.

Proportion of employed adults working part time
(1980 annual averages)



Proportion of unemployed adults looking for part-time jobs
(1980 annual averages)



B. TOWARD A NATIONAL POLICY FOR OLDER WORKERS

The Special Committee on Aging held a hearing on October 29, 1981, on "Older Workers: The Federal Role in Promoting Employment Opportunities." In conjunction with that hearing, Senator Heinz released a special report, "Toward a National Policy for Older Workers," prepared by the Special Committee, which explores barriers to employment and suggests ways in which job opportunities can be enhanced.

Based on a prior report prepared by the Federal Council on Aging, the committee's report has been widely disseminated to professionals in the field of aging, advocacy groups, and business and industry to encourage further discussion and the development of a national older worker policy.

Copies of the report are available from the Special Committee on Aging.

The executive summary of the report states:

> Age discrimination in employment continues to play a destructive role in limiting employment opportunities for older workers, as manifested by the increasing number and scope of complaints reaching the Equal Employment Opportunity Commission (EEOC) and litigation pending in the Federal courts. The Age Discrimination in Employment Act (ADEA) provides basic civil rights protection for older workers and for older persons seeking to reenter the labor force. But recent developments and cases suggest that there are weaknesses in the law which should be corrected.
>
> Older worker employment programs in the United States have varied greatly in design, funding levels, and emphasis over the past years.
>
> Although the Comprehensive Employment and Training Act (CETA) represented the Nation's basic manpower policy, older workers participated minimally in this program. Title V of the Older Americans Act of 1965, as amended, provides part-time work for older persons who meet certain Office of Management and Budget (OMB) poverty criteria. The program serves more than 54,000 older individuals. The larger, more expensive training and employment programs, however, appear to be directed at disadvantaged youth. The smaller, part-time work program is directed at older workers. There are certain values and policy implications involved in this dichotomy which deserve careful scrutiny.
>
> Current employment programs sponsored by the U.S. Government can be changed to provide more equitable services to older workers. And there are many new policy and program initiatives which can and must be explored over the coming decade if the Nation is to develop a policy recognizing the older worker as a valuable human resource.
>
> For example, an affirmative action program for workers between the ages of 40 and 70 might assure that these individuals (including older women and minorities) gain ready access to jobs made available through Federal contracts to major employers in the United States.

Congress could design and legislate special unemployment insurance and job retraining programs for middle-aged and older workers to enable them to remain in—or reenter—the labor force when external economic pressures would otherwise force them into premature labor force withdrawal.

Congress should also explore alternative employment programs which would provide older workers with incentives to defer retirement; provide employers with motivation and incentives to develop retention programs for older employees; and promote part-time employment opportunities for retired individuals seeking limited work opportunity.

Further, officials from the Department of Commerce, and Labor, along with representatives from the Administration on Aging, could assess and develop economic impact programs which can lead to job opportunities for older workers along with the other age groups in the labor force.

Current retirement policies should also be reconsidered. Various experts and observers have pointed out that continuing the present level of retirement income support is largely dependent on a combination of economic and demographic factors. If, for example, double-digit inflation abates over the coming years and if the economy as a whole does not slide into serious recession and the U.S. labor force achieves reasonable levels of productivity, then we may be able to afford current benefit levels. And older persons most likely will continue to retire at the expected early or normal retirement age.

But if economic conditions are more severe, then the support of an additional 5 million older persons in "full" retirement at the end of the decade, and millions more in subsequent decades, raises many questions. Will the retirement income, from whatever combination of sources, be adequate? Will able, older retirees be forced to engage in some sort of employment activity to make ends meet? Much has been written about how inflation has eroded the incomes of older persons who retired 10 or more years ago on what then seemed to be an adequate retirement income. Retirement policies should focus on removing the disincentives which tend to push, or lure, older workers into retirement. A policy objective is to provide options within the retirement system which would allow for continued, part-time work, periodic callback to the workplace, and provisions for hiring new older workers.

Employment as an alternative to retirement should be thoroughly examined as one means to alleviate financial stress on the public and private pension systems as the Nation's older population expands over the coming decades. But, once again, new knowledge and tools are needed if employment and retention options are to become practical realities for older workers and prospective employers.

If a national older worker policy is to be developed, a major effort at organizing and disseminating present research and knowledge on age, work, and retirement must be made. The employer community at large and, specifically, personnel administrators and human resource managers, need to know how to utilize older workers; and they need the tools and methods to do so. Furthermore, new knowledge is needed about older workers, their productivity and job aspirations, and how organizations can develop and utilize the skills and experience of older workers in new and effective ways. The gradual aging of our population makes this knowledge all the more necessary.

Schools of gerontology, business administration, and industrial relations need to collaborate and share their experience as it applies to the aging process and the adjustment of work and retirement systems to accommodate this process in the workplace. Schools of medicine with established programs in geriatrics also need to cooperate in generating research and information which can help in the developing of flexible employment and/or retirement systems.

In the preface to the report, Chairman John Heinz and ranking minority member Lawton Chiles noted:

> While the Special Committee on Aging as yet does not endorse any specific recommendation made by the Federal Council on the Aging, the substance of the report and the options raised can serve as a springboard for consideration and debate of a national older worker policy.

The specific recommendations made by the Federal Council on Aging are:

AGE DISCRIMINATION IN EMPLOYMENT

(1) The Equal Employment Opportunity Commission (EEOC) should change the current set of regulations on ADEA which permit employers to not credit years of service beyond age 65 in calculating a worker's final retirement benefit.

(2) Congress should remove the provision in ADEA (Public Law 95–256, 92 Stat. 189, 1978) which permits employers to refuse to hire or to terminate a worker if age, of itself, can be shown to be a bona fide occupational qualification (BFOQ) essential for the performance of a special job.

(3) The Department of Labor, pursuant to the mandates of the ADEA, should develop and implement, in collaboration with other appropriate Federal agencies, a specific research, training, and information dissemination program directed at employers in order to highlight the skills and experience that middle-aged and older workers possess.

(4) The mandatory retirement limit, set at age 70 in the 1978 amendments to the ADEA, should be abolished.

OLDER WORKERS EMPLOYMENT PROGRAM

(1) The Department of Labor should direct regional administrators and local prime sponsors to comply with the specific CETA planning requirements, outlined under titles I and II of the act, directing that a special labor force analysis be completed on older workers and other targeted groups. The results of the analysis are to be used in formulating special service programs for these groups. Specifically, the De-

partment of Labor should carry out appropriate procedures, including regional and local oversight hearings, if necessary, to assure compliance with the Age Discrimination Act (ADA) of 1975, as amended, especially as this statute applies to all CETA training programs.

(2) Federal regulations which exclude workers from participating in apprenticeship programs funded by the U.S. Government solely on the basis of age should be abolished.

(3) The Department of Labor should allocate at least $10 million in fiscal year 1981 to implement the middle-aged and older worker program described in title III, section 308, of the 1978 CETA amendments.

(4) The Department of Labor should design and put into effect a national older worker program as required by statute.

(5) The senior community service employment program under title V of the Older Americans Act should be expanded on the basis of: (a) An assessment of the proportion of workers in need of the program over the next 5 years; and (b) an assessment of the impact and effectiveness of the program in terms of benefits to participants, services to agencies and people served, and the overall benefit to the economy and the government.

NEW EMPLOYMENT OPPORTUNITIES

(1) The Department of Labor should develop an affirmative action program for middle-aged and older workers to assure that these individuals gain access to jobs made available through Federal contracts to major employers in the United States.

(2) Congress should establish a special unemployment insurance and job retaining program for middle-aged and older workers to enable them to remain in or reenter the labor force when economic pressures force them to withdraw from the labor force involuntarily.

(3) Congress should establish a retirement alternative employment program which would: (a) Provide workers with incentives to defer retirement; and (b) provide employers with incentives to develop retention options for older employees.

(4) The Departments of Commerce, Agriculture, and Labor should collaborate with the Small Business Administration and the Administration on Aging to develop and assess economic impact programs which will identify entrepreneurial, job and other self-employment opportunities for middle-aged and older workers.

RETIREMENT POLICIES

National retirement policy, as manifested through the social security system and regulatory laws affecting pensions, should be reassessed with a view toward encouraging continued, varied and nontraditional employment opportunities for middle-aged and older workers.

Chapter 10

FEDERAL PROGRAMS FOR OLDER WORKERS

A. OVERVIEW

There have been several overlapping phases in the development of older worker policy and programs on the part of the Federal Government. The first phase consisted of a directed effort by the Department of Labor (DOL) to identify and to respond to the specific needs of older workers seeking jobs. The effort began in the early 1950's and has continued in one form or another to the present.

A second phase began with the Manpower Development and Training Act of 1962 (MDTA) which represented the Nation's first major attempt to train individuals for job opportunities.

A decade later, the Comprehensive Employment and Training Act (CETA) carried this effort forward, but through different jurisdictional procedures. It was amended in 1978 to include specific planning directives and program components referring to older workers. However, neither the MDTA nor the CETA has been particularly responsive to older workers.

1. Bureau of Employment Security Programs (DOL)

The earliest efforts to define and deal with problems facing older workers came through a series of research and demonstration programs carried out by the Bureau of Employment Security (BES) in the Department of Labor in the early 1950's. Through a series of studies, BES officials found that counselors and staff of the State employment security agencies, which were responsible for labor market exchange functions throughout the Nation, needed special training if older workers were to achieve job placements. Training was subsequently provided on an experimental basis in seven cities and, as a result of these demonstrations, the BES initiated a national older worker program. Its own personnel received older worker training and, in turn, trained State employees. Older worker State supervisor positions were established on the State level, and older worker specialists were placed in the network of local employment service offices.

The program represented a clearly defined older worker policy by the Federal Government, but because of the semiautonomous relationship between BES and the States, programs in the States developed in an uneven fashion. In States with a larger older population, the program tended to be more viable and effective. In States with different population compositions, lesser efforts were made. Economic conditions also affected the program performance, with more emphasis placed on younger workers during times of high unemployment.

The older worker program still exists in State employment agencies where such program priorities and concerns are held important. However, there is no longer any major effort on the Federal level to conduct studies, carry out demonstrations, or educate employers about older workers.

At the January 1982, meeting of the National Commission for Employment Policy, this group announced their intention to conduct a year-long study on the plight of the older worker. At the same meeting, the commission members discussed a strategy for evaluating national employment policy for older Americans and agreed to cooperate with the Department of Labor, the Administration on Aging, and several congressional committees as they study this problem.

2. MANPOWER DEVELOPMENT AND TRAINING ACT OF 1962 (MDTA)

Enacted in 1962, the Manpower Development and Training Act (MDTA) marked a new era in employment and job training policies developed by the Federal Government. Based on a perceived need to avoid major disruptions in the labor force expected to occur because of the rapid expansion of technology, especially in computer technology, the act focused on the need for training, education, and counseling to assist in converting the skills of workers to meet the anticipated needs of a technological society.

When the expected disruption in the work force did not occur, the MDTA shifted its job training emphasis to a new segment of the population, the young and the disadvantaged, especially minorities with limited education.

From 1963 onward, amendments to MDTA gradually increased the proportion of funds available for youth training and allowances.

As a result, the U.S. Employment Service (USES) system under the Department of Labor had to learn and manage a new series of manpower development functions. In addition to their previous responsibilities in dealing with job referrals, job applicants, job orders and counseling, it was necessary to deal with recruitment, outreach, intake, and new training procedures.

Given the new priorities and programs assigned to USES, the existing older worker program received less attention and employment services for older workers declined.

3. ECONOMIC OPPORTUNITY ACT OF 1964 (EOA)

Under the Economic Opportunity Act (EOA) of 1964, a part-time work program, operation mainstream, was developed. It was directed toward the handicapped, older worker, and youth who needed part-time employment to supplement their incomes. Participants were placed primarily in subprofessional work roles in human services agencies.

The Federal Government subsidized the wages of participants for a period with the expectation they would be hired by the agency or a similar one, once the subsidy ended. With a modest funding base of $5 million and limited older participants, about 2,000, the program was to become the model for the senior community service employment program.

4. SENIOR COMMUNITY SERVICE EMPLOYMENT PROGRAM (SCSEP)

First enacted in 1973 as title IX of the Older Americans Act, the senior community service employment program (SCSEP) was implemented by the Department of Labor and administered by national contractors. In 1976, Congress substantially increased the senior employment funding and for the first time allocated 20 percent of the appropriation to State governments.

The 1978 amendments to the act redesigned the SCSEP as title V, defined low income as 125 percent of the Bureau of Labor poverty index to allow the near poor to participate in the program and directed more job slots to State governments. This revised law also directed the Secretary of Labor to reserve a percentage of future appropriations to improve the transition from community service job to private sector employment.

Total SCSEP funding for the 1981–82 program year was $277.1 million which supports $54,200 public service positions. The Omnibus Reconciliation Act of 1981, Public Law 97–035, included a level of $277.1 million for program year 1982–83, and $293.7 million for year 1983–84.

The program is open to income-eligible persons age 55 or over. The variety of jobs in which workers are placed meet many community service needs and older participants give much more time and effort than the hourly requirement. However, the primary goal of the program is keeping individuals who want to continue working in the labor force. Considered one of the most effective and popular programs for older workers, the program has more than repaid the Federal Government's investment of tax dollars.

TABLE 1.—*Percentage of Older Workers in the SCSEP by Age*

Age:	*Percent*
55 to 59	20
60 to 64	28
65 to 69	27
70 to 74	16
75 and over	9

5. COMPREHENSIVE EMPLOYMENT AND TRAINING ACT OF 1973 (CETA)

The major difference between the Comprehensive Employment and Training Act (CETA) and its predecessor, the MDTA, involved administration. Under MDTA, administration was the responsibility of the Departments of Labor and Health, Education, and Welfare (now Health and Human Services) and other related agencies. Under CETA, program administration and management was shifted to State and local jurisdictions.

CETA was designed to provide training and employment opportunities for economically disadvantaged, unemployed, and underemployed persons to enable them to secure self-sustaining, unsubsidized employment.

Under CETA, prime sponsors—mainly governmental units in areas with populations of 100,000 or more, are responsible for locally tailored comprehensive programs of training, employment, and related services.

In 1978, CETA was reauthorized through 1982, and a number of provisions were added to more clearly direct program efforts to serving low-income or disadvantaged people.

The CETA legislation makes specific authorization for provision of services to older workers. Section 215 authorizes prime sponsors to assist older workers in overcoming age-induced barriers to employment. Prescribed assistance includes skills training and updating, remediation to compensate for physical changes associated with aging, overcoming of employer age stereotyping, financial barriers inhibiting labor force participation, and job development efforts to expand appropriate job opportunities. The Secretary of Labor is responsible for insuring that each prime sponsor's plan contains appropriate activities addressing the employment problems of older workers.

Despite the requirement that annual plans submitted by prime sponsors include activities for older workers and specific language in the legislation which includes persons 55 years of age or older, CETA has been primarily concerned with youth and young adults.

As table 2 indicates, the older an individual becomes, the less likely he or she is to participate in any CETA program. Individuals age 45 to 54 constitute less than 10 percent of participants. Those age 55 to 64 don't reach the 6 percent level, and those over 65 do not reach the 1-percent mark of the total program's participants.

TABLE 2.—CETA PARTICIPANTS BY TITLE AND AGE GROUPS, 1976 AND 1980

	1976			1980		
	Title I[1]	Title II[1]	Title VI[1]	Title II(b)(c)[1]	Title II(d)[1]	Title VI[1]
Total participants (100 percent)	1,425,000	[illegible]97,500	431,600	1,113,800	486,400	410,400
Under 22 (percent)	56.5	22.2	21.4	47.9	36.1	24.2
22 to 44 (percent)	36.5	63.9	64.7	45.7	51.5	62.8
45 to 54 (percent)	4.1	8.8	8.8	4.1	7.5	7.6
55 and over[2] (percent)	2.9	5.0	5.0	2.3	5.0	5.4

[1] As a result of the 1978 CETA amendments, the title numbers changed. The programs under the different titles have not changed.

[2] Age breakouts 55 to 64; 65 and over are not reported.

Source: U.S. Department of Labor, Employment and Training Administration.

CETA PROJECTS FOR MIDDLE-AGED AND OLDER WORKERS

Title III, section 308, of CETA represents an effort to allow a variety of sponsors to develop unique approaches in the training and employment of older workers. It allows for the use of a variety of human resource development techniques not found in other parts of the CETA program. Above all, the program seeks to develop employment and training opportunities which are different from those found in the SCSEP approach.

Programs falling under title III are discretionary. The Secretary may allocate funds to programs which are not covered under other titles or may choose not to fund a program.

Section 308 calls for a variety of training programs for middle-aged and older workers over 55. It also calls for research about the relationships between age and employment and the dissemination of information to employers to help them better understand and utilize older workers.

New program approaches are needed. For example, sponsorship of programs under this section is not limited to the CETA network, but may include business organizations, labor unions, educational institutions, and a variety of community-based organizations not usually involved with older workers. Special emphasis is placed on skill assessment of participants and the use of functional norms, rather than formal testing as means to place older workers in jobs.

Section 308(b)(4) calls for the establishment of second career opportunities for older workers. Emphasis is placed on cooperation between older program participants and program managers. They are to mutually develop and work out career objectives, determine the steps to achieve them, and define accountability measures for both parties in pursuing the second career objective.

The DOL allocated $2 million to implement the section 308 program in fiscal year 1981. The Omnibus Budget Reconciliation Act of 1981 did not provide a specific authorization for the program. Up to 5 percent of the $219 million for all title III programs can go to section 308. However, at a hearing held by the Special Committee on Aging on October 29, 1981, Malcolm R. Lovell, Jr., Under Secretary of Labor, indicated DOL would allocate only $500,000 for 1982.

B. COMMITTEE ACTIVITIES DURING 1981

1. Committee Hearings

The Special Committee on Aging held two hearings concerning older workers and work patterns during 1981. The first, on June 18, "Early Retirement: Implications for Social Security," was one of a series of four hearings exploring the short- and long-term financing problems facing the social security system.

The hearing focused on three major topics—early retirement patterns of older workers and the impact they have on social security financing; disincentives in current retirement and pension systems as well as the social security system, which encourage early retirement; and possible incentives to encourage employers to retain older workers and to encourage older workers to defer retirement.

The details of the hearing are more fully discussed in chapter 3, social security. However, it is important to note that in May, President Reagan had proposed reducing social security benefits for early retirees at age 62, from 80 to 55 percent of full benefit, beginning in 1982. Some proponents of this approach viewed it as a method of keeping older workers on the job longer.

At the opening of the second hearing, "Older Workers: The Federal Role in Promoting Employment Opportunities," held on October 29, Chairman John Heinz disagreed with this approach, saying:

> The Federal Government should expand opportunities and remove obstacles to employment for older workers, *not* at-

> tempt to coerce them into working longer through drastic cuts in social security benefits. Reversing the trend toward early retirement should not be done by penalizing those who retire before age 65, many of whom have no other choice, but by rewarding those who voluntarily work longer.

The hearing examined incentives and disincentives for continued employment of older workers and explored ways to promote job opportunities.

Among the major employment and pension policies identified as discouraging older workers from staying on the job were:

—Mandatory retirement at age 70. A preliminary report of the Department of Labor was cited indicating that eliminating mandatory retirement would stimulate jobs for more than 400,000 workers over 60.

—Regulations under the Employee Retirement Income Security Act (ERISA) which permit employers to stop the accrual of pension benefits for workers over 65. Without the accrual of pension benefits, many older workers feel there is little to be gained by staying on the job.

—ERISA regulations which allow the payment of pension benefits.

—The earnings limitation under social security which prohibits a person over 65 from collecting benefits if he or she earns more than $5,500 ($6,000 as of January 1, 1982) per year. While this does not apply to people over 72, it is a serious disincentive for those between 65 and that age.

—Age discrimination practices.

In addition, a number of incentives which would encourage older workers to remain in the work force were identified, including:

—Increasing the delayed retirement credit under social security for workers who stay on the job beyond age 65.

—Encouraging private sector employers to provide job retention and retraining programs, second career opportunities, and job sharing, part-time, and flex-time work schedules for older workers.

—Educating employers concerning the productivity and capabilities of older workers.

Representing the administration at the hearing, Malcolm R. Lovell, Jr., Under Secretary of DOL, supported the elimination of the earnings limitation under social security, but further stated: "This is a time of scarce resources; it would be inappropriate to imply that major new programs in this area will be proposed by this administration."

Under Secretary Lovell also testified that, "At this time, our intention is that moneys expended for older workers under section 308 of the Comprehensive Employment and Training Act (CETA) will total $500,000 for 1982." This compares with $2 million allocated by DOL for section 308 programs in fiscal year 1981.

Dr. Harold Sheppard, associate director of the National Council on Aging, called for updating of skills of older workers, career counseling, opportunities for second careers, part-time work, job-sharing, and other forms of gradual retirement, and special focus on employment of older workers by the small-business employer sector.

E. Douglas Kuhns, assistant director of research for the international Association of Machinists & Aerospace Workers, said that although the regulations which allow an employer to grant no pension credit after age 65 were designed to encourage employers to retain people over 65, they actually dissuade employees from staying.

The Special Committee on Aging also held an oversight hearing on the Older Americans Act in which issues relating to the senior community service employment program under title V were addressed.

Gorham Black, secretary of aging for the Commonwealth of Pennsylvania, suggested the transfer of the administration of title V from the Department of Labor to the Administration on Aging.

> It is clear to us that the Department of Labor really does not understand the aging network of services and has complicated our activities at the State level by imposing reporting and administrative procedures which do not mesh well with our other Older Americans Act requirements. In addition, confusion and conflict sometimes occur at the local level, due to the fact that title V funding is channeled into communities through both national contract organizations and State units on aging.

Secretary Black noted, however, that these were relatively small problems.

> The real problem is that the title V program treats only the symptoms of unemployment rather than its cause. The title V program creates community service jobs for low-income older persons who would otherwise be unemployed. This is laudable. However, it does little to impact upon private sector employment, and much more serious actions must be taken if we are to provide all older persons with the opportunity to work.

Janet Zobel, national program director of the seniors in community service program, National Urban League, Inc., urged the committee to consider the following recommendations concerning title V:

> The extension of the program for at least 2 years, preferably 3, with minor changes in current program design; continued cooperation and coordination between national and State sponsors; maintenance of current income criteria, given budgetary constraints and income disparities among older persons; special emphasis of geographical targeting to areas of greatest need and to individuals who are most in need of employment among minority older adults, special recognition of their needs and specific guidance that any future expansion in the program will provide for equal division of new slots among national sponsors.

Ms. Zobel also recommended greater budget flexibility to allow for private sector job development, employer seminars, and other initiatives to enhance private sector relations.

2. LEGISLATION

A. OLDER AMERICANS ACT AMENDMENTS OF 1981

As the result of an amendment introduced by Senator Lawton Chiles, title V, the senior community service employment program, of the Older Americans Act was amended to place greater emphasis on moving people from subsidized community service jobs into private sector employment. The senior community service employment program (SCSEP), has demonstrated its effectiveness in placing older workers in public service jobs, but has been relatively ineffective in moving workers out of those jobs into nonsubsidized positions in the private sector.

Senator Chiles' amendment instructs the Department of Labor (DOL), which administers the SCSEP, to address the employment needs of older workers and to more fully develop a partnership between the public and private sectors.

DOL is now required to use at least 1 percent, but not more than 3 percent, of the funds in excess of the 1978 funding level under title V to demonstrate methods of training and placement of eligible persons in the private sector. This was previously permissive in the act and was not implemented by DOL.

B. OLDER AMERICANS EMPLOYMENT OPPORTUNITY WEEK

The Senate unanimously agreed to a resolution introduced by Senators Heinz and Chiles on June 22, calling on the President to designate the week of September 6 as "Older Americans Employment Opportunity Week."

The resolution called upon—

(1) Our Nation's employers and labor unions to give special consideration to older workers with a view toward promoting expanded career and employment opportunities for older workers who are willing and able to work, and desire to remain employed, and to retired seniors who wish to reenter the work force.

(2) Voluntary organizations to examine the many fine service programs which they sponsor with a view toward expanding the important service roles older workers are engaged in.

(3) The U.S. Department of Labor to give special assistance to older workers through job training programs sponsored by the Comprehensive Employment and Training Act, job counseling through the U.S. Employment Service, and additional support through its older worker program; and

(4) The citizens of the United States to observe this week with appropriate programs, ceremonies, and activities.

3. OTHER COMMITTEE ACTIVITIES

A. EMPLOYEE RETIREMENT INCOME SECURITY ACT (ERISA)

One of the disincentives to continued employment for older workers has been regulations issued by the Department of Labor to implement the Employee Retirement Income Security Act (ERISA) which permitted employers to suspend pension benefits for retired employees who return to work.

As the result of the intervention of Senator Heinz, other Senators and national organizations, with the Secretary of Labor, DOL issued final regulations, effective January 1, 1982, insuring that pensioners will be permitted to work up to 39 hours per month without having their pension benefits suspended.

In a letter to the Secretary of Labor, written on August 7, 1981, Senator Heinz stated:

> As chairman of the Senate's Special Committee on Aging, I am writing to urge that you authorize the Department of Labor to put into force the final regulations governing the 'suspension of benefit rule' under ERISA. Unfortunately, the Department recently deferred their effective date until September 1.
>
> * * * I want to point out a particularly glaring deficiency in private pension policy, whereby plans are allowed to suspend benefits to workers over 65 who return to work in the same industry. Many older workers never even contemplate a prolonged worklife, because of the certain knowledge that their benefits will be suspended. In the past, the Department of Labor has delayed issuing regulations implementing the ERISA law regarding the suspension of benefits. And now, DOL has deferred, for the third time, the effective date of this regulation.
>
> I therefore urge you to put an end to the Department's long record of procrastination in this area, to take an incremental step that will improve the opportunities for older Americans, and to approve the final regulation in question.

C. OTHER CONGRESSIONAL ACTION

Representative Claude Pepper, chairman of the House Select Committee on Aging, introduced the Older Worker Employment Incentives Act of 1981 (H.R. 3397) on May 1, 1981. The bill proposed:

—Amending the Employee Retirement Income Security Act (ERISA) to insure continued pension accrual for older workers.

—Amending the Social Security Act to liberalize the earnings limitation and to increase the delayed retirement credit.

—Amending the Internal Revenue Code to provide tax credits to employers who hire low-income workers age 62 and over.

—Amending the Age Discrimination in Employment Act to abolish all forms of age-based employment discrimination.

As of the end of the 1st session of the 97th Congress, the bill was in the Labor and Education Committee, Subcommittee on Employment Opportunities, and the Ways and Means Committee, Subcommittee on Social Security.

The House Select Committee on Aging also held two hearings on employment for older workers.

The first, "Older Working Americans: A Productive Trend," was held on September 8, 1981, "To examine the ill-conceived notion that at age 60 or 65 or 75, a person is automatically ready for the idle pasture."

Studs Terkel, 69, author of "Working," told the committee: "One of the great needs of our time today * * * is a need for self-esteem, a need for self-worth. When a job is taken away, no matter what the reason given—in this case a calendar age—that person is half a person. * * * I think options for the person working for 30 years is mandatory."

A panel of four older workers presented testimony favoring the elimination of mandatory retirement, providing incentives for older workers to remain on the job longer; and providing incentives to employers for hiring older workers.

Lawrence Olson, manager of the Public Economics Service, Data Resources, Inc. presented the results of a study completed in January 1981, which looked at the future of the elderly in the economy over the next 25 years. He cited two important findings: "First, increased labor force participation by older workers can benefit not only them, but also help the economy. Second, even the elderly who cannot work could benefit from the resulting economic and fiscal gains." Mr. Olson said these results show the productive potential of older workers and their value to the U.S. economy.

The second hearing, "New Business Perspectives on the Older Worker," was held October 28, 1981. Five top corporate officials presented testimony describing programs aimed at the retention and hiring of older workers. Three additional witnesses provided data indicating new trends are developing in the demand for older workers.

Chapter 11

AGE DISCRIMINATION

A. OVERVIEW

Age discrimination in employment continues to play a pernicious role in blocking employment opportunities for older workers. It is not a new problem. According to the Department of Labor, the emergence of discriminatory employment practices for older workers can be traced to the late 1800's in the United States.[1] The most common of these practices were age limits for hiring and restrictive physical examinations. There is some evidence to indicate that even at this time, negative attitudes about the capacities and productivity of the aged were already common in the Nation. The development of retirement as a social pattern in industry may have served to enhance and legitimize employment discrimination practices despite early evidence that older workers were capable, conscientious and productive employees.[2]

Prior to 1920, age discrimination practices in employment were justified primarily on the basis of the belief that "modern technology" required substantial physical strength, agility, and endurance which was generally beyond the capacity of older workers. The requirements of industrial technology and efficiency were seen as causing the employment problems of the older worker, and justifying early discharge from employment.

Despite the gradual publication in the 1930's of industrial studies that demonstrated the advantages of older workers in terms of productivity, reliability, and physical capacities, limitations on employment of older persons persisted and grew largely because personnel managers and other corporate officials remained unconvinced of the productive capacity of older workers. Rigid age limits in hiring continued to be utilized to limit the number of older workers in the labor force.

These conditions led to early studies of age discrimination, most of which concluded that the technological environment combined with pensions, group insurance, and workmen's compensation, were responsible for the continuation of discrimination practices. Nevertheless, gradually and imperceptibly, a shift in beliefs about age discrimination occurred, with negative stereotypes about older workers becoming the dominant reason for the continuation of discriminatory employment practices.

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[1] Historical information in this section is from an unpublished paper prepared by the Employment Standards Administration, DOL.

[2] Graebner, W., A History of Retirement, Yale University Press, New Haven: 1980.

With the passage of the Social Security Act in 1935, retirement as a social pattern gradually emerged in a society where age discrimination was already widely practiced. While age discrimination did not diminish in intensity, retirement permitted employers to arrange the work force so that younger workers were predominant and resulted in reducing the demand for employment by older workers. Gradually, early retirement policies, accompanied by continuing discrimination in employment based on age, became a consistent and significant social pattern which resulted in substantial reductions in labor force participation by older persons.

1. AGE DISCRIMINATION IN EMPLOYMENT ACT OF 1967

Title VII of the Civil Rights Act of 1964 has come to represent the main Federal effort to bring about equal employment rights and opportunities for groups encountering discrimination in employment.

Although age protections were considered while title VII was passing through the legislative process, Congress decided not to include age as a protected category. The statute did, however, direct the Secretary of Labor to conduct a study on the matter and report back to Congress on the prevalence and seriousness of age discrimination. The 1965 report submitted to Congress concluded, in part, that:

> There is a persistent and widespread use of age limits in hiring that in a great many cases can be attributed to arbitrary discrimination against older workers on the basis of age and regardless of ability. The use of these age limits continues despite years of effort to reduce this type of discrimination through studies, information, and general education by the Government. The possibility of new nonstatutory means of dealing with arbitrary discrimination has been explored. That area is barren.

Congress responded to the report by holding hearings which together with the report provided the foundation for the Age Discrimination in Employment Act of 1967 (ADEA).

The ADEA was enacted to "promote employment of older persons based on their ability rather than age; to prohibit arbitrary age discrimination in employment; and to help employers and workers find ways of meeting problems arising from the impact of age on employment. The act prohibited employment discrimination against persons aged 40 to 65. These age limits were chosen to focus coverage on workers especially likely to experience job discrimination because of their age. The upper age limit was set at 65 because it was the common retirement age in U.S. industry and the normal eligibility age for full social security benefits.

The 1967 ADEA contained the following exceptions:

> It shall not be unlawful for an employer, employment agency, or labor organization to:
>
> (1) Take any action otherwise prohibited under subsection (a), (b), (c), or (e) of this section where age is a bona fide occupational qualification (BFOQ) reasonably necessary to the normal operation of the particular business, or

where the differentiation is based on reasonable factors other than age (RFOA).

(2) Observe the terms of a bona fide seniority system or any bonda fide employee benefit plan such as a retirement, pension, or insurance plan, which is not a subterfuge to evade the purposes of this act, except that no such employee benefit plan shall excuse the failure to hire any individual; or

(3) Discharge or otherwise discipline an individual for good cause.

It is important to examine the exceptions, especially the first two, because they set the scene for important litigation.

The so-called bona fide occupational qualification (BFOQ) exception is based on the assumption that sooner or later the effects of aging will limit an individual from performing certain job functions. The question that comes to mind is whether an employer is bound to hire older job applicants for heavily demanding jobs, or retain an incumbent older worker in such a job if there is evidence that the worker's performance is not keeping up with job demands. Does age, of itself, become a limiting factor so that employers can make accurate judgments on the hiring and termination of older workers? The litigation surrounding the BFOQ issue is ambiguous, to say the least.

The "reasonable factors other than age" (RFOA) part of section 4(f)(1) is also ambiguous. For an employer to terminate or refuse to hire an older worker on the RFOA grounds means that there must be objective evidence in support of the action to show that age was coincidental to the personnel procedure which has an adverse impact on the older worker. This is difficult to demonstrate.

The second exception which allowed employers and labor unions to collectively bargain for a mandatory retirement age lower than 65, was also challenged in the courts and abolished by the 1978 ADEA amendments. The exception permitted an early retirement stipulation as part of a bona fide pension plan (one that pays a specified amount of beneficiaries), if it was not a subterfuge to violate the protections of the act.

The third exception allows employers to terminate or otherwise discipline employees for good cause. Insubordination and related matters could constitute good cause.

Despite the litigation which resulted from these exceptions, no changes in the BFOQ section have been made and it remains as problematic as it was in 1968 when the ADEA went into effect.

Since 1967, the ADEA has been amended twice. The first set of amendments occurred in 1974, when the provisions of the act were extended to include Federal, State, and local government employers. Also, the number of workers in establishments and labor organizations covered by the act was reduced from 25 to 20.

In 1978, the act was amended to extend protection beyond age 65, without any upper age limit for employees of the Federal Government and until age 70 for most other workers. Regulations implementing the 1978 amendments, however, specified that employers are not bound to credit years of service worked beyond age 65 to final pension benefit levels. This has and continues to be a disincentive to continued work beyond age 65.

Other features of the 1978 amendments were:

—No union or employer can arrange or collectively bargain for early retirement prior to age 70 as the condition for participation in an employee benefit plan.

—Compulsory retirement was permitted for bona fide executives and high policymakers at age 65.

—Colleges and universities were permitted to retire tenured employees at age 65 until July 1, 1982.

—A jury trial was authorized to determine issues of fact under any ADEA action.

—An aggrieved party was allowed to file a charge of age discrimination against an employer rather than a notice of intent to sue.

—A hold was put on the running of the statute of limitations for up to 1 year, while conciliation procedures are in effect.

In eliminating the mandatory retirement age for Federal employees, exceptions were made for Federal prison guards, air traffic controllers, foreign service officers, and some other special groups.

The 1978 amendments also required the Secretary of Labor to conduct an extensive study on the consequences of the new coverage provisions of the law including:

—An examination of the effects of raising the upper age limit under the act to 70.

—A determination of the feasibility of further extending or eliminating the age 70 limit; and

—An examination of the effects of the exemptions in the law permitting mandatory retirement of tenured faculty members at institutions of higher education and certain business executives.

The Department of Labor was required to submit a preliminary report in 1981, and a final report, including departmental recommendations, in 1982.

2. ENFORCEMENT OF THE ADEA

During the first 10 years after its passage, enforcement of the ADEA was the responsibility of the Department of Labor.

As a result of President Carter's Reorganization Plan No. 1 of 1978, implemented on June 22, 1979, by Executive Order 12144, enforcement responsibility for the ADEA shifted from the Labor Department to the Equal Employment Opportunity Commission (EEOC). The purpose of this shift was to consolidate all Federal enforcement of job-related civil rights in one agency.

This move raised a number of issues concerning enforcement of the ADEA, including:

—The Department of Labor had gained 10 years experience in enforcing the act. Could that experience be transferred to the EEOC?

—DOL, through its Wage and Hour Division, had a nationwide network of over 300 offices and outreach stations through which complaints could be placed. The EEOC has 22 district and 27 area offices throughout the country. Would older workers have adequate access when seeking to file charges of age discrimination?

—The EEOC had primarily been involved in the enforcement of title VII of the Civil Rights Act which offered job protection for women and minorities. Would older persons, as a new "protected" group, receive adequate service?

Oversight hearings were held by the House Select Committee on Aging in 1980, and addressed these and other issues about the effectiveness of enforcement under EEOC. A panel of five older workers raised serious questions about the adequacy of the protection and service by EEOC. Eleanor Holmes Norton, Chair of EEOC, testified that the most significant trend in the ADEA jurisdiction, following its transfer to EEOC, was an extraordinary growth in the number of complaints, but at that time did not know why this had occurred.

A report by the EEOC placed the number of complaints received during fiscal year 1980 at 8,779; the number was expected to exceed 10,000 by the end of fiscal year 1981.

The Select Committee concluded that continued oversight by congressional committees is necessary to insure that the EEOC is vigorously and effectively meeting its ADEA mandate.

The issue of age discrimination was also addressed at the first of a series of three hearings held during 1980 by the Senate Special Committee on Aging: "Work After 65: Options for the 80's." A consultant for the Center for Studies in Social Policy, University of Southern California testified:

> * * * the continuing civil rights struggle of older workers to achieve full and equal employment opportunities * * * is a day-to-day issue and struggle which is illustrated by both the growing numbers of complaints of age discrimination filed with the Equal Employment Opportunity Commission (EEOC) and the growing number of ADEA cases being litigated in the Courts.

Karl Kunze, then chairman of the National Institute on Age, Work, and Retirement for the National Council on the Aging, urged the amending of the ADEA as follows:

> Procedural requirements should be simplified and access by plaintiffs to class actions should be improved. The upper age limit for protection under the act, 70 years for most employees, should be abolished. Irrational exceptions to the ADEA, specifically those for tenured college faculty and for highly paid business executives, should be repealed. The exception permitting discrimination when age is a "bona fide" occupational qualification should be sharply restricted.

B. CONGRESSIONAL ACTION DURING 1981

1. Legislation

One bill was introduced in the Senate and four in the House concerning mandatory retirement under the ADEA.

Senator Lawton Chiles, ranking minority member of the Special Committee on Aging, introduced S. 1536 on July 29, 1981, to amend the Social Security Act to insure adequate short- and long-term financing of the old-age, survivors, and disability insurance program and the medicare program. This bill also included a provision to amend the ADEA to remove age 70 or over as a permissible age to allow mandatory retirement in the private sector. As of the end of the 1st session of the 97th Congress, the bill remained in the Senate Finance Committee.

The four House bills, all proposing the removal of age 70 among other provisions, are:

H.R. 70, introduced by Representative Paul Findley.
H.R. 1666, introduced by Representative Donald Young.
H.R. 4683, introduced by Representative Ronald Mottl; and
H.R. 3397, introduced by Representative Claude Pepper.

All four bills are in the Education and Labor Committee, Subcommittee on Employment Opportunities. The Pepper bill is also in the Ways and Means Committee, Subcommittee on Social Security.

2. ENFORCEMENT OF ADEA

Two of the five Commissioner positions on the Equal Employment Opportunity Commission, which is responsible for enforcing the ADEA, were vacant during 1981. In a letter to President Reagan, Senator Heinz urged the appointment of a Commissioner who is "especially sensitive to and knowledgeable about the abilities of older workers and the problems of age discrimination in employment."

Senator Heinz cited the experience of many capable older people who wish to find jobs or remain on the job beyond the usual retirement age, but who are unable to do so because of age discrimination.

"The appointment of a Commissioner with a special interest in age discrimination would be an important step toward assuring that this problem receives the attention it is entitled to by law," he said.

3. INTERIM REPORT TO CONGRESS ON AGE DISCRIMINATION IN EMPLOYMENT ACT STUDIES

Pursuant to section 5 of the ADEA as amended in 1978, the Department of Labor submitted to Congress in December 1981, its "Interim Report on Age Discrimination in Employment Act Studies."

One of the major findings of the report indicates that eliminating mandatory retirement at age 70 would not have an adverse impact on other segments of the population and would, in fact, stimulate jobs for more than 400,000 workers over 60.

The executive summary of the report states:

I. INTRODUCTION

BACKGROUND

> The Age Discrimination in Employment Act Amendments of 1978 (Public Law 95–256) required that the Secretary of Labor conduct an extensive study on the consequences of the new coverage provisions of the law including: (a) An examination of the effects of raising the upper age limit under the act to 70; (b) a determination of the feasibility of further extending or eliminating the age-70 limit; and (c) an examination of the effects of the exemptions in the law permitting mandatory retirement of tenured faculty members at institu-

tions of higher education and certain business executives. The 1978 study requirements were placed in the context of a general requirement already in the ADEA, that the Department undertake an appropriate study of institutional and other arrangements giving rise to involuntary retirement and report findings and any appropriate legislative recommendations to the President and Congress. The amendments required that the Department of Labor report study findings to Congress in an interim report in 1981. Also, a final report on the studies, including departmental recommendations, is required to be submitted in 1982.

In response to this requirement, the Department of Labor initiated in 1979, an extensive series of studies designed to produce information on the current and probable future consequences of the 1978 ADEA Amendments. Research findings from most of these studies are summarized in this interim report. These findings include information on the labor force participation effects of mandatory retirement, response of current workers and employers to the increased mandatory retirement age, long-term projections of the consequences of mandatory retirement age alternatives, and the effects of the ADEA exemptions for tenured faculty at institutions of higher education and for executives. The interim report presents the most important research findings relevant to the major areas of congressional concern—the effects of raising the upper age limit in the ADEA to 70; the feasibility of extending or eliminating the upper age limitation; and the effects of the exemptions in the law for tenured faculty members and certain business executives.

In conducting these studies, the Department of Labor was concerned with both the impact of mandatory retirement on individuals and the administrative and financial consequences of the ADEA amendments for employers. In addition the Department recognized that the retirement decision is simultaneously influenced by mandatory retirement policies, public and private pension policies, and personnel policies. The study findings in this report examine the consequences of mandatory retirement policies in the context of these other major factors influencing retirement behavior.

The Age Discrimination in Employment Act Amendments of 1978 represented a substantial modification of the provisions of the act by extending the upper age limit of protection under the act to age 70 for most private sector and nonfederal public employees, prohibiting mandatory retirement of covered workers under employee benefit plans, and extending age discrimination protection without an upper age limit to almost all Federal employees. In enacting these provisions, Congress was concerned about several potential consequences of increasing the mandatory retirement age. The major areas of concern included: (1) The possibility of an adverse impact on employment opportunities for younger and minority employees resulting from large-scale retention of employment by workers after age 65; (2) potential administrative burdens on employers; (3) possible cost implications for pension plans; and (4) possible difficulties for universities and major corporations in adjusting to the upper age limit of 70.

DEMOGRAPHIC AND RETIREMENT TRENDS

Two trends which have developed over the past 25 years are of major significance in considering the potential effects of the Age Discrimination in Employment Act—population aging and the decline in labor force participation by older workers.

Under intermediate demographic assumptions, the 65 and over population will increase from 25 million in 1980 (11 percent of the total population) to 32 million in the year 2000 (13 percent of the total population). The median age of the population which was 28 in 1970, is now 30 and will continue to increase. Contributing to population aging is the gradual increase in life expectancy; medical advances in the future could result in even greater life expectancy leading to higher proportions of older persons in the population. These trends will result in a gradual aging of the labor force in the coming years.

While the overall population continues to age, labor force participation by older workers has declined significantly over the past 25 years. For men 65 and over, labor force participation reached a new low of 19.3 percent in 1980 (28.5 percent of men 65 to 69 were labor force participants however). Declining participation was also occurring for men 55 to 64 and 45 to 54 years of age. Labor force participation by older women has been low but stable for many years.

It is generally agreed that the increasingly earlier availability of social security and private pension benefits and institutionalized mandatory retirement practices have led to the development and continuation of the early retirement trend and substantially lowered the labor force participation of older workers. A continuation of this trend will have two major consequences: (a) A substantially increased retirement financial support burden for a smaller work force; and (b) weak incentives for older persons to continue working in view of institutionalized mandatory retirement rules and income availability from pension programs. Declining labor force participation by older workers is of considerable concern since: (1) The economic position of retired persons will be significantly affected by longer periods of retirement and continued inflation; (2) early retirement increases the financial strain on the social security system and private pension programs; (3) shortages of skilled labor could develop in certain industries and geographical areas; and (4) older person's preferences for part-time employment are growing but labor demand is not sufficient to satisfy their employment needs. For these reasons, the potential for reversing the decline in labor force participation and raising or eliminating the mandatory retirement age are important major public policy issues.

ESTIMATED NUMBER OF EMPLOYEES WITHIN SCOPE OF THE ADEA

An estimated 73 million workers of all ages are employed by employers having 20 or more employees and are, therefore, covered by the Age Discrimination in Employment Act. The exact number of these workers who are in the 40 to 70-year-old group protected by the act is not known. However, labor force data show that of the 105 million persons 16 years of age and older who were in the civilian labor force in September 1980, 39 percent were 40 to 70 years of age. Applying this proportion to the estimated 73 million persons employed by covered employers, yields an estimate of 28 million persons covered by the ADEA or 7 out of every 10 persons aged 40 to 70 in the civilian labor force.

II. ORGANIZATION OF RESEARCH FINDINGS

The studies undertaken by the Department of Labor provide information directly relevant to the research requirements specified in the Age Discrimination in Employment Act Amendments of 1978. The findings are organized as follows:

Part I. Effects of the 1978 ADEA Amendments on Employee Retirement Plans and Employer Personnel and Pension Policies.
Part II. Consequences of Mandatory Retirement Rules on Labor Force Participation by Older Workers.
Part III. Effects of Mandatory Retirement on Younger Workers.
Part IV. Long-Term Effects of Mandatory Retirement Alternatives on Labor Supply.
Part V. Impact of the Exempt Executive Provision in the 1978 ADEA Amendments.
Part VI. Effects of the Tenured Faculty Exemption in the 1978 ADEA Amendments.

Copies of the report are available from the Department of Labor, Employment Standards Administration, 200 Constitution Avenue, NW., Washington, D.C. 20210.

Chapter 12

PRIVATE SECTOR INITIATIVES

A. OVERVIEW

Historically, there has been no consistent response by the private sector to older workers. As noted under the chapter on age discrimination, myths about the productive capacity of older workers combined with retirement patterns designed to ease older workers out of the work force to make room for younger workers, have resulted in employment practices and pension policies which bar the older worker from staying on the job.

During 1980, the Special Committee on Aging held a series of hearings on, "Work After 65: Options for the 80's." A major outcome of these hearings was the evidence that one of the primary obstacles to the employment of the older worker is a set of negative myths and stereotoypes denigrating the older worker's ability to function effectively.

Dr. K. Warner Schaie, director of the Gerontology Research Institute of the Andrus Gerontology Center at the University of Southern California, reported results from his 21-year longitudinal study of age changes in competence and learning ability. He concluded that there is no evidence of systematic across-the-board poor health, higher accident rates, lower productivity, reduction in learning ability, or lowered value of retraining as a consequence of normal aging.

However, four corporate witnesses agreed that a major obstacle to the employment of the older worker is the persistence of the very myths that the scientific research has shown to be false.

A major recommendation of the witnesses was the development of a program of education and incentives aimed at employers to encourage the expansion of work options for the older worker.

In "Toward a National Policy for Older Workers," a report published by the Special Committee on Aging in 1981, it is stated:

> * * * a major effort at organizing and disseminating present research and knowledge on age, work, and retirement must be made. The employer community at large and, specifically, personnel administrators and human resource managers, need to know how to utilize older workers; and they need the tools and methods to do so. Furthermore, new knowledge is needed about older workers, their productivity and job aspirations, and how organizations can develop and utilize the skills and experience of older workers in new and effective ways.

Despite the lack of an overall Federal policy to promoting employment opportunities for older workers, many corporations have developed programs aimed at job retention, retraining, hiring, and providing flexible work patterns. While information about specific corporate programs is sketchy, some surveys have been published which provide important data on private sector initiatives.

The information in the following section is, therefore, not the total picture of programs for older workers in the private sector, but it does highlight the increasing trend toward the development of such programs.

B. PRIVATE SECTOR INITIATIVES

One of the companies that has developed an extensive program to address the major concerns of older workers, and who has shared its information with the Special Committee on Aging, is Travelers Insurance Co.

In describing its program, Travelers indicates its belief, "that American business, consistent with its corporate interests, can engage its skills, imagination and resources to advance the national commitment to the elderly."

The Travelers' program includes:

—The elimination of mandatory retirement companywide.

—The establishment of a job bank, temporary jobs, and job sharing for retirees.

—The establishment of a preretirement planning program.

—Changes in the company pension plan to permit retirees to work up to 6 months per year with no loss of pension benefits.

—A search to develop new products and services to meet the needs of older Americans.

—Participation in the White House Conference on Aging.

—Corporate contributions to projects including support for the White House Conference, gerontology fellowships, local transportation, and long-term care; and

—Involvement in public policy issues such as social security, retirement income, personal savings, and health care for older Americans.

In assessing this program after 6 months' experience, Travelers found that, "highly motivated returning retirees have increased work output and reduced the need for extensive orientation and training; 55 percent of all daily temporary positions in the home office were filled by retirees; and of over 100 retirees currently registered in our job bank for temporary and part-time work, only one individual failed to meet the requirements of the position."

Travelers estimates that even a modest increase in the employment of older workers nationwide (to levels prevailing in 1970) could raise the gross national product by 4 percent and add about $40 billion in State and local tax revenues by the year 2005.

The following survey of examples of innovative corporate policies and practices was prepared by Travelers in March 1981. It was made available to the Special Committee to assist the committee in its own review of private sector developments. It is substantially reprinted here with the permission of the Travelers Insurance Cos.

REVIEW OF CORPORATE POLICIES AND PROCEDURES [1]

The review is divided into explicit corporate policies and specific corporate programs. Programs reviewed are: (1) Retirement planning, (2) arrangements for continued employment including job sharing, (3) retraining for continued employment, (4) performance assessment, (5) the effect of longer working life on traditional corporate benefit programs, and (6) transition assistance.

CORPORATE POLICIES

Most corporations do not make public their internal policy statements about older workers. Those contacted in several surveys of corporate attitudes and practices generally note only that they recognize the value of retaining productive older workers on the payroll. Three major exceptions are prominent.

In testimony before the Senate Special Committee on Aging, William M. Read, senior vice president for employee relations of Atlantic Richfield Corp. (ARCO) submitted for the record a report from ARCO's 1977 task force on elimination of mandatory retirement age. The task force was comprised of high level ARCO executives. The task force's first recommendation was to "continue the philosophy and the policy that there should be no specified mandatory retirement age." A second recommendation was to "adopt a company position which would neither encourage nor discourage retirement at any specific age."

Subsequently ARCO statistics showed that approximately 3 percent of its over-65 work force elected to continue working. The vast majority continued to retire between 55 and 65.

Employee benefits for workers over 65 continue virtually unchanged. Among them are full pension credits and continuing employee contributions to the company pension plan. Identical participation in the company thrift plan and coverage under group life/survivor income and voluntary group accident plans is available regardless of age. Long-term disability coverage is available until age 69. The company medicare supplement plan provides essentially the same health coverage after age 65 as before. Other benefits, for example, holiday, vacation and sick leave, and educational benefits are unchanged. The company actively supports local ride-sharing programs, use of retirees as consultants, and flextime scheduling for all employees where practical. Mr. Read stated, "There are no disincentives at Atlantic Richfield Co. for working beyond age 65."

At the same hearing, Harold Page, vice president for personnel of Polaroid Corp., described that company's policies and plans.

Polaroid Corp. has never had mandatory retirement. Prior to passage of the original Age Discrimination in Employment Act, employees who wanted to work after age 65 requested an "extension review." The employee received permission to continue working if he or she was "in good health, had good performance, and had some degree of a thought-out retirement program." After ADEA, the review system was applied only to workers over 70 who wished to continue working.

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[1] Information in this review is based on the following reports: M. Rosenblum and H. Sheppard, "Jobs for Older Workers in U.S. Industry: Possibilities and Prospects," American Institute for Research, September 1977 (hereafter Sheppard). B. Jacobson, "Young Programs for Older Workers: Case Studies in Progressive Personnel Policies," Van Nostrand Reinhold/Work in America Institute, 1980 (hereafter Jacobson). "Retirement Preparation: Growing Corporate Involvement," Corporate Committee for Retirement Planning and the National Council on Aging, 1980 (hereafter NCOA). "Retirement Policies and Programs," Bureau of National Affairs and American Society for Personnel Administration, January 1980, reported in (1980) Personnel Practices Manual, Bureau of National Affairs (hereafter BNA).

According to Mr. Page, "Our policy is to provide retirement any time between the ages of 55 into the seventies. Pressure is not exerted on people to stay or to leave. We try to provide employees all the tools necessary to make a wise choice regarding their own retirement * * *for instance, facilitating in tapering off schedules."

Company retirement planning is available to all employees at age 55. Different counseling programs are used at various stages of preretirement. Employees, age 55, are invited to a group seminar review of retirement, social security, and pension benefits. Individual conferences are scheduled so that employees may look at the range of benefits available to them at various ages of retirement. For employees age 60, or those younger who are considering retirement within the year, the company offers a twice-yearly series of six evening seminars covering retirement, finances, benefits, attitudes, and other topics. Finally, as the worker nears retirement, the company's retirement counselor spends 4 to 8 hours with the worker and spouse or close relative discussing attitudes, use of time, adjustment, and other key personal retirement issues.

As planned retirement approaches the employee may try "rehearsal retirement" allowing him or her take off for 2 or 3 months to "see what it is like."

The company's experience is that about 50 percent of those eligible retire before age 65, 25 percent around age 65, and 25 percent after 65. One trend Mr. Page noted is that recently more employees who have worked to age 65 are electing to continue working and are working longer.

Mr. Page also commented that the company makes arrangements for some tapering off to part time as employees near retirement, but most who work beyond 65 want to stay at the same jobs. The company has had little success with a worker's changing jobs at that point in his or her career.

Banker's Life & Casualty Co. is a showcase of aggressively promoted, progressive retirement policies. Banker's representatives testified before the House Select Committee on Aging in 1977, and the Senate Special Committee on Aging in 1980. The company has produced a glossy booklet, "Bankers' Experiences With Over-65 Workers," promoting its policies and views on the value of older workers.

In its 44-year history, Banker's Life has never had mandatory retirement. Employees are expected to meet the demand of their jobs, and performance is reviewed every 6 months. According to Gerald L. Maguire, vice president for corporate services, "We could not recall in our history of a single incidence where we had to sit an older worker down and say, 'Charlie, you have to retire.' "

Company benefits continue unchanged for each employee as long as he or she works. Additional pension credits accrue for years worked past "normal" retirement age. The pension program is described as a "two-step package." On the one hand, employees and the company contribute to a pension plan on a defined contribution basis. The contributions and earnings are available as an annuity at minimum retirement age or beyond. On the other hand, the company has a supplemental defined benefit plan available to retirees at any age who have been with the company at least 5 years. Potential retirees have the option to select the plan which will provide the best dollar return over their planned retirement. Mr. Maguire said, "Our corporate policy is that we pay people for equal work, therefore, we should provide the same benefits regardless of age."

The company also has a "life planning" program available to workers of all ages to help them plan for the future regardless of the age at which they plan to retire.

The result of the Bankers' Life program is that approximately 5 percent of the home office work force (170 of 3,700) is over 65. A slightly higher percentage of active field agents is over 65.

LIFE PLANNING/RETIREMENT COUNSELING

The Bureau of National Affairs (BNA) reports that preretirement counseling programs have been established in more than 400 organizations across the country. This represents a dramatic increase in the last 5 years. A 1979 survey commissioned by the National Council on Aging (NCOA) and the Corporate Committee for Retirement Planning concluded that "retirement planning is an idea whose time has come." The survey quizzed corporate chief executive officers (CEO's) and personnel directors about their attitudes toward retirement planning and their companies' practices.

Although most companies do not have preretirement planning (63 percent of those surveyed), others had programs planned (23 percent) and almost all (92 percent) believed companies will be more committed to retirement planning in the future. On the other hand, while there is strong support for the concept, only 42 percent of CEO's and 38 percent of personnel directors would give retirement planning a high priority in their company's personnel practices.

NCOA surveyed 134 companies that do have retirement planning programs. Of those, 44 percent cover a broad range of topics beyond traditional benefit review. These programs try to prepare retirees in areas of life planning, interpersonal relations, legal aspects of retirement, and use of leisure time. Forty percent of the programs covered a more limited range of topics (intermediate programs), and 16 percent only the narrowest range of social security and company pension benefits. The BNA survey of 267 members of the American Society for Personnel Administration yielded nearly identical figures.

Newer programs generally have the broadest range of offerings, employ audiovisual and personal as well as written presentations and tend to be offered to younger employees. Broad programs tend to be concentrated in larger companies.

Two-thirds of the broad programs were purchased from outside consultants, one-third of the intermediate, and none of the narrow.

Most programs are available to employees at 5 years or less before retirement. But 81 percent of the personnel directors whose companies have broad programs, feel that 5 years is the minimum limit, and employees get much more out of programs initiated earlier than that.

Here are some examples of retirement planning programs.

Along with its review of eliminating mandatory retirement, Atlantic Richfield simultaneously tested the American Association of Retired Person's (AARP's) action for independent maturity (AIM) program, retirement advisers program, and an in-house program modeled along the AIM lines. After analyzing costs and employee reactions, the company decided to develop its own series of video tapes for use in all ARCO divisions. The tapes can be supplemented with case materials, workshops, lectures, and outside experts where employee interest dictates.

Through its benefit consulting firm, Grumman Aerospace supplies each employee with an annual status report of health and life insurance , social security benefits, and investment planning results. Pension benefit results are provided for hypothetical retirement at ages 55, 58, 62, and 65, to all employees age 55 and over. Recently, the company augmented these services by testing retirement planning for employees in three age groups—55, 60, and 64. The program was stressed as informational to allay employees' fears that they were being induced to retire. Grumman executives reported favorable reactions from all age groups.

Levi-Strauss in San Francisco initiated retirement planning with the AIM package but early on modified it to suit the needs of its own workers. Levi-Strauss employees may retire on reduced pension at age 55 with 15 years service. The planning program is available to employees at age 50 and consists of seven 2-hour meetings covering a broad range of benefit, financial, psychological, and emotional issues faced by the retiree.

Morgan Guaranty Trust Co. instituted preretirement counseling in 1977. Their program focuses on financial planning, social security, and medicare benefits, and presents a film on the retiree's choices between full-time leisure and continued work, and the need for adequate planning for a happy retirement. Originally the program was available to employees age 65. In 1979, employees age 63 were invited to attend. The company's ultimate goal is to make the program available to workers age 55.

Pacific Telephone & Telegraph in San Francisco has a retirement planning program open to all employees. Average retirement age at P.T. & T. is 58. Attendance is recommended at least 10 years before planned retirement. The program is divided into three sessions dealing with financial planning, pension, social security, and medicare benefits; wills and other legal matters; and finally a general session to raise other important issues for the potential retiree.

Dayton's Department Store in Minneapolis-St. Paul offers a broad program to employees and spouses or friends. Typically, seven 2-hour workshops feature guest speakers and extensive question and answer sessions. The programs span the gamut of concerns from social security benefits to the psychological effects of retirement.

ECI Division in St. Petersburg, Fla., offers its program to employees 60 and over. Three sessions cover company benefits and social security; financial planning; and other aspects of retirement. The company plans to make the program available to employees age 55.

Inland Steel Co. in Chicago has a four-step program commencing when the employee reaches age 55. First, the company sends a letter and retirement planning workbook to the employee. The letter stresses the need for long-range planning and the workbook helps the worker analyze his or her retirement plans. At age 60, employees and their spouses are invited for an interview with the retirement counselor. Specific estimates are made of expected pension and social security benefits, as well as life and health insurance, and private savings. At age 64, a similar interview is held to update estimates and to help the employee assess postretirement plans. Two months before the employee's 65th birthday, a third interview is scheduled to complete necessary benefit forms and fix a final work date.

Scovill Manufacturing Co. has a program for employees who are 55 or older. Employees attend eight 2-hour sessions to discuss retirement income, legal affairs, health, and recreation.

Other preretirement services available at some companies include:

—Preretirement question and answer column in the company newsletter (the Garrett Corp., Los Angeles).

—Retirement lending library for employees thinking about retirement (Bendix Corp., Elmira, N.Y.).

—"Preretirement resource file" available to employees who have attended a company preretirement workshop contains information on benefits, finances, travel, recreation, and other topics (General Telephone Directory Co.).

CONTINUING EMPLOYMENT—JOB MODIFICATIONS

Researchers believe that changing perception of managers and executives and changing needs in the corporate world will move more and more companies to modify work situations to enable older workers to remain on the job. They note that companies are sensitive to changed practices of their peers in the business community. But many are reluctant to publicize their policies and programs and decline to be identified in surveys. Researchers find, however, that, "(t)he range of private sector alternatives for older workers to adjust their work hours in some form of voluntary adjustment is wide, with examples of many types and variations on record. [But] it is difficult to determine the extent or pace at which companies revise their personnel policies regarding the utilization of older workers. New programs or practices do not always receive public attention."

One survey conducted by BNA of American Society for Personnel Administration members found that 78 percent of those surveyed had some program to help their employees adjust to aging. The large majority (61 percent) reassigned employees to lighter work. One-third retrained older employees to do a different job and another third restructured or redesigned the employee's present job. Personnel executives noted that the success or failure of each program depended largely on the individual involved.

Some examples:

Minnesota Abstract Title has instituted job sharing. Older workers share jobs on a 1-month-on 1-month-off basis.

Ideal Security Hardware uses older workers (although not necessarily their original employees) on a flex-time basis for tasks that are not linked to other processes or groups of workers. For example, filing orders and janitorial service are done on a part-time basis on a schedule designed to suit the worker.

Polaroid Corp. noted in testimony before the Senate Special Committee on Aging that most workers who continued on the job past age 65 preferred to stay in the same job. The company does make some adjustments for part-time work for those employees who request it.

On the other hand, Northrop Corp. encourages lateral transfer of older workers to less demanding jobs. They have also instituted a 4-hour workday where the manufacturing process permits. This major aircraft manufacturing firm finds a need for skilled workers with long-time experience in the industry. They prefer helping older workers stay in the company rather than seeing those with necessary skills simply drop out.

Northern Natural Gas Co. recently upgraded its part-time staff to permanent status and instituted a job-sharing program. Employees participate on a pro-rata basis in the company pension and trusteed investment plans. Employee and dependent medical insurance, post-retirement spouse benefits, noncontributory life insurance, long-term disability plan, tuition reimbursement, and paid vacation benefits are all available to permanent part timers. The target group for the program includes workers nearing retirement who wish to decrease their schedules, retired people, and others who might benefit from a limited work schedule.

The Toro Co., a Minneapolis manufacturing firm, has also established a permanent part-time work force. Workers have fixed jobs and responsibilities and participate on a pro-rata basis in profit sharing and vacation benefits.

Part-time schedules for older workers are prevalent in the retail industry. Bullock's, R. H. Macy's, Woodward & Lothrop, and Zales all reported their willingness to allow older workers to continue in the sales force on a part-time basis. In these cases, part-time work is used both to extend the worker's career and as a means to phase in retirement. Part timers generally receive standard company benefits on a pro-rated basis.

Bankers' Life keeps older workers at jobs suited to their performance ability, but on a full-time basis. No employee is reduced from full- to part-time status, but efforts are made to transfer an employee to a department more suitable to his or her abilities.

Atlas Powder & Chemical permits employees to shift to less strenuous jobs although it is more an informal practice than a formal policy.

RETRAINING FOR CONTINUED EMPLOYMENT

One-third of those surveyed by BNA retrain older workers to do different jobs. But most companies do not have formal programs for retraining older workers. Where companies encourage older workers to transfer into less demanding jobs, at Northrop Corp. or Banker's Life, for example, the company retrains the worker to perform the new job.

Continuing education programs designed to upgrade job skills are most common in highly technical industries. Some of these have an incidental effect on older workers. The aerospace systems department of General Electric, for example, established a retraining program in 1977. Called a "technical renewal program," the two courses thus far offered have focused on upgrading skills of older engineers to the level of recent engineering graduates. The average age of the participants was over 40.

Retraining is also common when technological improvements force companies to lay off large numbers of workers. Paddock Corp. faced such a problem but was able to retrain and retain all but one of the employees threatened with layoff. Many of these workers were over 55.

One air freight carrier promised to retain all retrained workers when its operations converted from traditional freight handling and storage to a highly automated and computerized container system. Although research indicated that older workers (over 40) learned the new systems more slowly at first, once they became familiar with the equipment and routine, their productivity kept pace with their younger coworkers.

PERFORMANCE ASSESSMENT

Performance assessment is an important tool for older workers who wish to continue working. A standardized system of job requirements, goals, and performance standards helps both the employer and employee make justifiable decisions about continued worklife. In age discrimination cases, courts have upheld performance rating systems that are comprehensive, rational, communicative, and fair.

At Crocker Bank, a performance assessment program based on the "management by objective" technique has been in place for 3 years. The bank's senior trainer on the program noted, "An objectively written performance objective protects both the employer and the employee, as well as making it possible to evaluate performance. * * * What applies to a 20-year-old employee can also apply to a 40- or 65-year-old."

Banker's Life conducts standardized performance assessments of each employee every 6 months. "If performance has slipped, there may be person-to-person counseling with the supervisor or with someone in the personnel department.

In 1973, Connecticut General Life Insurance Co. adopted a two-pronged performance appraisal system to separate current job evaluation from development appraisal. In the first part of the system, employee and supervisor work together to establish objective performance standards for the job. Then employee performance is rated against the criteria at 3, 7, and 12 months. In 1977, the company announced that retirement past age 65 would be based solely on performance.

THE EFFECT OF LONGER WORKLIFE ON BENEFIT PROGRAMS

Under Federal regulations based on the 1978 amendments to the Age Discrimination in Employment Act (ADEA), defined benefit pension plan employers may disallow benefit accrual after the normal retirement age, usually 65.

However, other ADEA regulations require that employee participation in a thrift, savings, or profit-sharing plan cannot be terminated because of age. Health insurance, if provided to employees under 65, must be provided for the over-65 worker. Employers may take advantage of medicare to reduce premium payments, but the combined coverage must be the same for the older as for the younger employee. Life insurance benefits may be lower for older workers if there is a demonstrated cost justification based on higher risk. But employers must pay the same level of premium for all workers. Vacation, sick leave, and personal leave must be available to the older worker based on the same criteria that apply to all other employees.

As already noted, companies that encourage older workers to continue working generally make little, or no, change in the employee's benefit package because of age. Employers who encourage older workers to move to part-time status often provide benefits on a pro-rated basis.

In 1979, Exxon Corp. announced that its employees over age 65 would continue to accrue pension benefits as long as they worked. Connecticut Mutual Life Insurance Co. also adds pension credits for work after age 65. Benefits are calculated on the 5 highest years of earnings.

A New York financial institution freezes accrual at age 65 although employees may continue to work until age 70. Pension benefits are paid at the time of retirement. However, the current value of the uncollected difference for the extra years worked is paid as a lump sum or separate annuity at retirement.

TRANSITION ASSISTANCE

Once an employee has made the decision to retire, employers can help him or her in a variety of ways to adjust to retirement. The BNA survey found that "tapering-off" programs to ease the transition from full-time employment to retirement are becoming more prevalent. In 2 years, the number of respondents with such programs increased from 5 to 15 percent. In the majority of the remaining organizations (62 percent), retirees may be recalled for temporary work. Part-time work is frequently used as a transition device in retail businesses.

A variation on the concept of part-time work is a period of extended leave prior to retirement to help the employee adjust to his or her new circumstances.

For 25 years, Connecticut Mutual Life Insurance Co. has offered fully paid extended leaves of absence for employees meeting length of service requirements. Leave time ranges from 22 days with 10 years of service to 44 days with 20 or more years. Leave must be taken in 22-day blocs and none of this extra leave may be taken within 6 months of retirement.

New England Mutual Life Insurance Co. offers additional paid vacation time to older employees contemplating retirement. At age 62, employees receive 2 extra weeks; age 63, three extra weeks; age 64, 4 extra weeks. The additional leave must be taken in the year offered, although regular leave time may be accrued and carried over to subsequent years.

Towle Silver Co. offers another variation. Employees may take 40 paid days off during the 4 months prior to retirement on a schedule of 1 day per week the first month, 2 days per week the second month, and so on.

Varian Corp., a high technology research and manufacturing firm in California, offers its "tapering-off" plan to employees at least 60 years old with 5 years of service and within 2 years of retirement. Generally the employee's workweek is reduced to 4 days the first year and 3 days the second year. Other schedules may be arranged so long as the employee continues to work at least 20 hours per week. Most participants retain the same job until actual retirement. Salaries and benefits are reduced proportionately with the reduction in worktime.

The Wrigley Co. in Chicago offers over-65 employees the option to take off an additional 1 month the first year, 2 months the second year, and 3 months the third year. Salaries are reduced proportionately. However, pension benefits are calculated on earnings between 62 and 65, and are increased by 8 percent for each year the employee works after age 65.

Of the 50 employees who retire each year at Wrigley's, approximately one-half retire at age 55. Another 10 percent retire at age 65. Slightly less than half of those who continue after 65 work on the phased schedule. The rest continue working full time at full salary with no additional pension credits.

IBM has yet another variation on the theme of transition assistance in its retirement education assistance plan. The company offers up to $2,500 each in tuition aid for the employee and spouse from 3 years before retirement to 2 years after retirement. Designed to assist retirees in preparing for second careers after retirement from IBM, the program represents the philosophy of Thomas J. Watson, Jr., former chairman of IBM: "If we respected our people and helped them to respect themselves, the company would make the most profit."

CONCLUSION

These examples show that imaginative and innovative managers and executives can make optimum use of older workers. Myths that the older worker is less capable or less productive are simply myths. One BNA survey of personnel managers compared performance ratings of older workers to younger in nine categories. The overwhelming majority of respondents (84 percent) stated that older workers are equal to or better than the rest of the work force. The experience of employers such as Bankers' Life, Northrop Corp., and others bears out the result.

C. COMMITTEE ACTIVITIES DURING 1981

Committee Hearings

At its June 18, 1981, hearing, "Early Retirement: Implications for Social Security," the Special Committee on Aging heard testimony from Daniel Knowles, director of personnel, Grumman Aerospace, Inc., concerning steps that can be taken to increase job opportunities for older workers in the private sector.

Mr. Knowles said:

> We, as a Nation of employers and employees, are heading toward a more behavioral approach to living, both on the job and away from the job. More and more, industry and business are providing employees with more and more choice in determining their own destinies.
>
> Such things as flex working hours, flex benefits, level income, or social security options within pension plans, career information profile systems and job counseling, second careers are just a few of the present or impending approaches to dealing with people in the work environment.

Among his recommendations to the Special Committee, Mr. Knowles stressed the need for the Department of Labor to disseminate a how-to-do-it booklet to every business, exploding the myths and providing better demographic statistical data so that companies would be able to do an analysis to determine whether, in fact, they are discriminating against the middle-aged and older worker. He concluded by emphasizing the need for "an awareness program to convince industry and business that it is good business to do business with the middle-aged and older worker, and if business and industry do not rise up and voluntarily do something, then maybe the Congress will end up making another mandatory affirmative action program to cover the middle-aged and older worker."

Testifying before the Special Committee at its October 29, 1981, hearing on, "Older Workers: The Federal Role in Promoting Employment Opportunities," Harold L. Sheppard, associate director of the National Council on Aging, urged a more rapid "dissemination and acceptance of the viewpoint that employers would benefit, in straight managerial/company performance terms, by developing a broad positive older worker policy, based on practical considerations more than on public relations or corporate social responsibility grounds."

Mr. Sheppard also recommended the development and construction of new, and the increased awareness of existing, concrete procedures and personnel practices that can assist interested employers in their dealing with the older worker topic. Among these, he noted effective programs to update skills, career counseling, second career opportunities, creation of options for work during retirement years such as part-time and job sharing schedules, and a special focus on the small business sector where job growth is the greatest.

D. OTHER CONGRESSIONAL ACTIVITIES

During 1981, the House Select Committee on Aging held two hearings concerning the employment of older workers. The first, "Older Working Americans: A Productive Trend," held on September 8, 1981, focused on the problems confronting older persons who want to work, Walter Mack, chairman of the board for King Cola World Corp. told the committee: "In the business world with which I am intimately acquainted, a combination of the older experienced businessman who has lived through many of the ups and downs, and the daily problems of competition is most important, which coupled with the ingenuity and venturesome ideas of the younger generation make a balanced and aggressive management. It is my considered opinion after 60 years in business that the continued employment of people in any definite activity not only prolongs their lifespan, but in addition continues their contribution to society without their being an economic burden on society. Age should not be a factor in employment, the factor should be ability and experience."

Lawrence Olson, manager of the public economics service, Data Resources, Inc., told the committee: "As an important component of supply-side policies to get the economy moving again, increased labor force participation by older workers can have profound economic effects. Both the older workers and the economy would benefit and the resulting fiscal dividend could help the elderly who are unable to work."

On October 28, 1981, the House Select Committee on Aging held a hearing on, "New Business Perspectives on the Older Worker." Five corporate executives presented testimony concerning older worker programs:

V. J. Skutt, chairman and chief executive officer of Mutual of Omaha Insurance Co., described the company's programs to recruit older workers for selected positions, to retain older workers, and to provide rehabilitative services for workers who suffer disabilities.

Dr. Eberhardt Rechtin, president and chief executive officer of the Aerospace Corp., provided information about the corporation's research efforts to better assess its high technology workers so that effective retraining and retention policies can be developed.

Eric Knudson, chief executive officer of ACS American, Inc., described its program to hire and train retirees who work at home or in the office to produce computer programs.

Robert Bradshaw, secretary for the Grumman Corp., testified about the corporation's "age audit" procedures for effectively evaluating the age and makeup of the company's workers for use in corporate planning to benefit older workers and improve productivity.

Robert Beavers, senior vice president of McDonald's Corp., presented information about the company policy which encourages the hiring of older workers and retirees and allows flexible work hours and shifts during the stores' hours of operation.

In conjunction with the hearing, the House Select Committee requested the Andrus Gerontology Center of the University of Southern California, to assess the present climate among business leaders toward hiring older executives and managers. The major findings of that survey were:

> The age of candidates being recruited for top level positions has been steadily increasing over the past 10 to 15 years.
>
> The importance of age as a factor in the selection process is related to the level of the position being filled; the highest levels within the company are more likely to be filled by older individuals.
>
> For positions requiring special skills, or when companies face financial crises, executives and managers are selected without regard to age. Under these circumstances the most

qualified individuals are sought, whether they are old or young.

Some executive recruiting assignments involve specific client requests for an older executive. An older executive is brought in both to stabilize the company and to aid in the training of up-and-coming executives.

There are specific problems which still affect a company's willingness to hire older executives or managers. In some cases, the pension plan inhibits hiring an older executive because he or she may not achieve vested rights to the pension before retiring.

Foreign-owned companies are generally perceived as being more receptive to older executives and managers. It was also noted that multinational corporation's seek older executives because of the international diplomacy skills required.

The age of executives and managers being recruited is expected to continue to [illegible]rease in the future.

Part IV

HEALTH

HEALTH STATUS OF THE ELDERLY

The majority of Americans of all ages generally view themselves as being in good health. According to a 1979 survey by the National Center for Health Statistics, 89 percent of persons under 65, and 68 percent of persons 65 and older, rated their health as either good or excellent. There are, however, important differences existing among races and income groups. Although 69 percent of white persons 65 and older rated their health as good or excellent, a smaller percentage (54 percent) of blacks and (65 percent) of Hispanics did so. In addition, while 77 percent of persons aged 65 or older with incomes of $15,000 or more rated their health favorably, only 61 percent of persons with incomes $7,000 or less did the same.

MORTALITY TRENDS

More people are living longer than ever before in our history. Death rates for older persons, as for the population as a whole, have declined dramatically since 1950. The decade of the 1970's witnessed an accelerated decline in overall death rates. Although the reductions occurred among virtually all age groups in the population—both sexes, and all races—the decline for females has been greater than for males, as have the rates for blacks and other races compared with whites.

The decline in death rates has been particularly striking in the upper age groups. Between 1950 and 1978, annual death rates for women 85 and older declined by nearly one-third. Death rates for men 85 and older declined by about 20 percent. These decreases in mortality have been primarily due to declining death rates for heart disease and stroke. Rates for cancer deaths, on the other hand, have been rising. Heart disease remains the major cause of death among persons 65 and older, however, accounting for over 40 percent of deaths in the 65 to 84 age group and almost 50 percent of deaths for those over the age of 85.

Although the declining death rates have not significantly raised the limits of longevity, they have resulted in a substantial increase in the number of persons reaching the age of 75 and over. Should declining death rates for the elderly continue at the 1970 rate, it is likely that the number of persons aged 75 and older by the year 2000 will exceed current projections.

CHRONIC CONDITIONS

The likelihood of developing a chronic illness increases dramatically with age. Most older persons have at least one chronic condition (over 80 percent according to a 1979 National Center for Health

Statistics Survey) and multiple chronic conditions are a common occurrence. In 1979, the most frequently reported chronic conditions in persons 65 and older were arthritis (44 percent), hypertension (39 percent), heart conditions (27 percent), visual impairments (12 percent), and diabetes (8 percent).

In general, however, most older persons are capable of living independently despite these chronic conditions. According to the National Center for Health Statistics (NCHS), fewer than one in six older persons said they could no longer carry on normal activities because of chronic illness. Although the need for help with basic activities of daily living—such as bathing, dressing, eating, and toileting—increases with advancing age, the vast majority of individuals continue to be able to perform these activities of daily living independently.

MYTHS OF AGING AND HEALTH

As in other areas, myths about the health status of the aged persist. Despite the fact that the elderly are generally healthy, older years are often regarded as a time when illness is the norm. This view is often shared by many health and mental health professionals. Public support for training in geriatric medicine and research has begun to prepare more health professionals to meet the health care needs of the older population, but shortages of health personnel trained in geriatrics continue to exist.

USE OF HEALTH CARE SERVICES

The elderly do use health care services at a significantly greater rate than the rest of the population. The hospitalization rate for persons 65 and older is two and one half times greater than that of younger persons, and the length of hospitalization increases with advancing age. Even though data from the 1979 health interview survey reveals that fewer than 2 out of every 10 persons 65 and older were hospitalized in the previous year, older persons will continue to account for an increasing share of total hospital usage in the decades ahead due to their increased numbers, longer periods of recovery, and use of more intensive services.

The number of physician visits also increases with age. Persons under age 65 average 3.2 visits per year. This number increases to 4.8 visits for individuals aged 65 to 74, and 5.1 visits for those 75 and older. The patterns for service use for those services that are not covered by medicare contrast sharply with the above figures. For example, persons 65 and older have fewer dental visits per year than those under 65 (1.4 versus 1.7). Forty-four percent of persons aged 65 and older have not seen a dentist in at least 5 or more years, compared with 20 percent of all persons under 65. Yet, health surveys reveal that about 60 percent of all persons aged 65 to 74 have dental problems that go untreated. The same decreased pattern of utilization holds for mental health services, which are only minimally covered by medicare. Although older persons experience significant symptoms of mental illness about the same rate as the total population (15 to 25 percent), they use mental health services at only about half the rate of the general population.

USE OF NURSING HOME SERVICES

The nursing home population has increased rapidly in the past two decades. In 1963, there were 505,000 individuals residing in nursing homes. By 1980, the number has grown to at least 1.3 million. Ninety percent of nursing home residents are 65 and older. Although this is less than 5 percent of the total U.S. population over 65, the likelihood of spending part of one's life in a nursing home increases with age. According to NCHS, only one out of every 100 persons in the 65 to 74 age group is in a nursing home on any given day. However, this number increases to seven out of 100 persons in the 74 to 84 age group and more than one out of every five persons in the 85 plus population.

A number of factors have contributed to the tremendous increase in the nursing home population between 1963 and 1980 including: (1) Growth in the numbers of elderly, especially those over 75; (2) rapid "deinstitutionalization" of residents from mental institutions; (3) the nature of the health care reimbursement system which encourages institutional care; and (4) the lack of support of government or private insurance to cover community based alternatives. Assuming current trends, nursing home utilization is predicted to be the fastest growing segment of the health care system in the next two decades.

HEALTH CARE EXPENDITURES

Since the enactment of medicare, hospitalization rates and physician visits for persons 65 and older have increased dramatically. Between 1965 and 1978, hospital stays increased by 46 percent, compared to a 9-percent increase for the overall population. The average number of physician visits and the percentage of persons 65 and older seeing a physician in the past year have also increased significantly, particularly for lower income groups.

A significant shift in the proportion of public versus private sector health care funding for the elderly has also taken place in the 15 years following the enactment of medicare and medicaid. In 1966, only 30 percent of all health care costs for persons 65 and older were paid by Government funds. By 1978, public funds accounted for nearly two-thirds of the total cost. Much of this increase is due to increased coverage for hospital costs. Government funds currently pay nearly 90 percent of all hospital costs for those 65 and older, compared with less than one-half of these costs in 1965.

Although public funding as a percentage of health care spending for the 65-plus population has been stabilizing in recent years, total Government costs, particularly for hospital care, physician services, and nursing home care, are expected to continue to increase rapidly in the decades ahead under current policies.

HEALTH CARE COSTS FOR THE ELDERLY

Despite the growing expenditures of public funds for health care, out-of-pocket payments continue to be a major expense for the elderly. In 1977, persons aged 65 and over paid 29 percent of their health care costs out-of-pocket. These out-of-pocket expenses vary considerably by service category. Out-of-pocket expenses (uncov[illegible]d by public or private insurance) accounted for 5 percent of per capita hospital expenditures, 42.9 percent of nursing home expenditures, and 97 percent of dental costs for the elderly. While the percentage of expenses paid out-of-pocket has not increased significantly in the last decade, the amount paid as a percentage of income for services covered by medicare has increased slightly due to the rising costs of health care. In addition to dental care, other uncovered services such as drugs, eyeglasses, hearing aids, etc., and the increasing costs of private supplemental health insurance, have added to the elderly's overall health care bill.

1981 FEDERAL ACTIONS IN HEALTH FOR THE ELDERLY

Since the late 1970's, concerns about the overall economy and the rising cost of health care have limited the expansion of health care benefits and Federal health programs for the elderly. In 1981, the rapidly accelerating hospital costs raised added concerns about the future solvency of medicare's hospital insurance trust fund. Legislation designed to reduce the rate of growth of Federal spending dominated actions in the 97th Congress. Few Federal health programs for the elderly escaped at least some cost reductions.[1]

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[1] Sources for this chapter include data from the National Center for Health Statistics and published and unpublished data from the Health Care Financing Administration.

Chapter 13

FEDERAL HEALTH PROGRAMS

OVERVIEW

There were significant legislative actions affecting all of the major Federal health programs in 1981, mostly the result of one piece of legislation, the Omnibus Budget Reconciliation Act of 1981. The rapidly growing national health expenditures through medicare and medicaid, currently 10.3 percent of the total Federal budget, led to several significant measures to reduce costs in these programs. While the majority of these changes were administrative in nature, program costs to beneficiaries were increased. Funds for many traditional categorical health programs were also reduced, and the responsibility for these programs was shifted from the Federal Government to the States by consolidating and transforming them into block grants. In addition, programs for clinical training and research in health and mental health were also affected by reductions in Federal spending.

Significant problems in existing health care programs were not addressed. Despite concern over the inefficiencies in current Federal health programs, especially medicare and medicaid, no significant reform measures were enacted in 1981. The lack of incentives to control costs in the current health care system continue to result in increasingly higher health care costs for the Government and the elderly. These growing costs have limited the available resources to address the continued problems that the elderly face with gaps in health care coverage and out-of-pocket costs. There is also a continued problem with training in geriatric medicine and a general lack of public and professional awareness of the importance of health promotion for the elderly. Although significant advances have been made in these areas, the recent reductions in Federal support for these programs may impede their development.

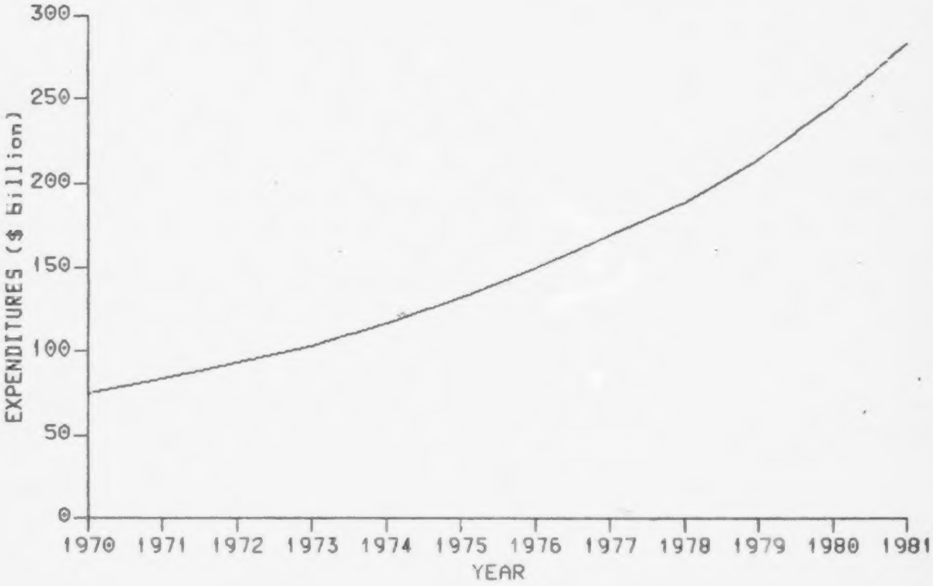
There is, however, legislation pending in the Congress that proposes to preform major aspects of the health care system. The continuing pressures to limit the growth of Federal spending assure that debate on methods to control the growth in health care costs while maintaining quality health care for the elderly will dominate in the next Congress and the future.

A. HEALTH CARE EXPENDITURES

The growth of overall health care expenditures has been accelerating each year, and 1980 and 1981 set new spending records. The 15.2 percent increase in 1980 and the projected 15 percent increase in 1981 are the highest rates of growth in the last 15 years, substantially above the 13.4 percent growth rate between 1978 and 1979. Currently, medicare and medicaid, the two major Federal health programs, consume 10.3 percent of the total Federal budget of the United States. If current policies continue, this percentage can only be expected to increase as health care expenditures continue to grow faster than the rate of inflation and the overall economy. Health care is consuming a larger proportion of the GNP, steadily increasing from 8.9 percent in 1979, to 9.4 percent in 1980, to an estimated 9.7 percent in 1981. (Chart 1 shows the increase in health care expenditures from 1970–81, and chart 2 shows the growth of health care share of the GNP.)

CHART 1

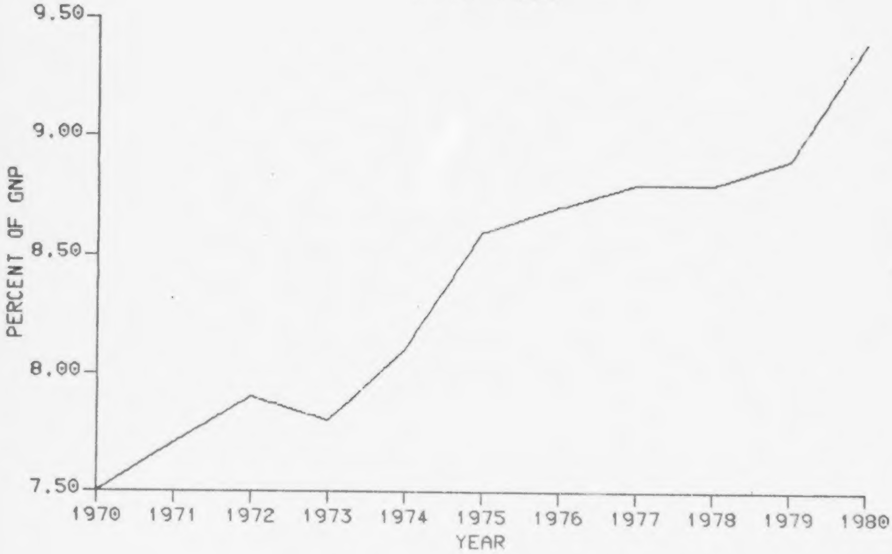
TOTAL HEALTH CARE EXPENDITURES
1970-1981



SOURCE: Health Care Financing Administration: Unpublished Data, 1982

CHART2

HEALTH CARE EXPENDITURES AS A SHARE OF GNP 1970-1980



SOURCE: Office of Research, Demonstrations, and Statistics: National health expenditures, 1980, by R.M. Gibson and D.R. Waldo. Health Care Financing Review. HCFA Pub. No. 03123. Health Care Financing Administration. Washington. U.S. Government Printing Office, Sept. 1981.

1. PERSONAL HEALTH CARE EXPENDITURES FOR THE TOTAL POPULATION

A. HOW MUCH IS SPENT?

Personal health care expenditures will account for 98.4 percent of all national health care expenditures in 1981. An estimated total of $251.4 billion was spent for personal health care in 1981.[1] Where we spend our personal health care dollar is shown in chart 3, and described in the categories below.

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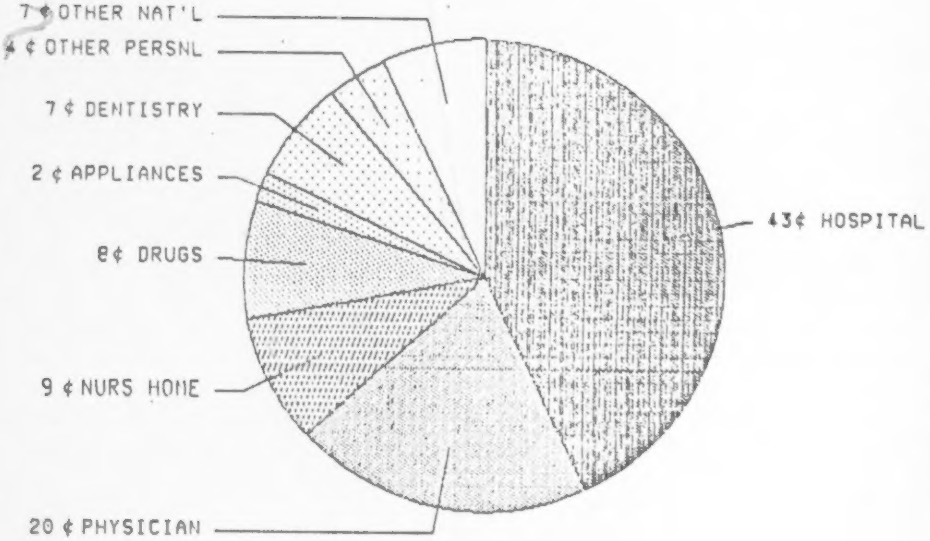
[1] Health Care Financing Administration, unpublished data, 1982.

CHART 3

THE NATIONAL HEALTH DOLLAR
1981



SOURCE: Health Care Financing Administration:
Unpublished data, 1982.

(*i*) *Hospital Care*

Expenditures for hospital care in 1981 will be an estimated $115.8 billion, an increase of 16.3 percent from the previous year.[2] This category of health expenditures equals 46.1 percent of total personal health care expenditures. This category of spending continues to consume the largest share of all health care expenditures.

(*ii*) *Nursing Home Care*

National nursing home care expenditures in 1981 are estimated to grow 16.9 percent from 1980. This spending accounts for 9.6 percent of personal health care expenditures. Excluding nursing home care for the mentally retarded, spending dramatically doubled between 1975 and 1980 for nursing home care, from $9.8 to $19 billion, reaching $22 billion in 1981.[3]

(*iii*) *Physician Services*

Expenditures for physician services will reach an estimated $54 billion in 1981, a 15.8 percent increase over 1980.[4] This category of expenditures accounts for 21.5 percent of personal health care expenditures.

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[2] Reference cited in footnote 1.
[3] Reference cited in footnote 1.
[4] Reference cited in footnote 1.

(*iv*) *Drugs and Medical Sundries*

Expenditures for drugs and medical sundries will equal an estimated $21.5 billion in 1981. This figure includes spending for prescription and over-the-counter drugs. and durable medical equipment. This category's share of health care spending has declined, from over 12 percent in 1965 to 8.8 percent in 1981.[5] However, the 11.6-percent rate of growth for drug expenditures between 1979–80 and a 12-percent growth rate between 1980–81 may indicate a change in that trend.

(*v*) *Other Personal Health Care*

Expenditures for other forms of personal health care include spending for dentists and dental services. home health care benefits, eyeglasses, orthopedic appliances, and for providing general services in industrial settings. Estimated expenditures for this group of services are $35.9 billion in 1981, an increase of 12.9 percent from the previous year.[6] This amounts to 14.2 percent of all personal health care expenditures. The significant category accounting for increased growth is dental services, which is due in part to increased private insurance coverage for these services.

B. WHY ARE HEALTH CARE COSTS INCREASING?

(*i*) *Inflation*

Price inflation within the general economy is the predominant factor causing the growth in health care expenditures. Estimates reveal that 75 percent of this growth results from price inflation, yet, holding inflation and population constant, in real terms, there were still increases in hospital and physician per capita expenditures between 1967 and 1980.

TOTAL REAL PER CAPITA CHANGES IN EXPENDITURES[1]

[In percent]

	Under 65	Over 65
Physicians	38.2	50.1
Hospitals	74.5	80.1

[1] Health Care Financing Administration, unpublished data, 1982.

The remaining one-fourth of health care cost growth is divided among what is known as "residual factors" in health care: intensity of services and population growth. Intensity of services is estimated to be responsible for 17 percent in the growth of health care costs. Intensity is the number and types of procedures performed during a contact with a health care provider. Another, less significant, residual factor is the growing price paid for advances in health care technology. The increase in medical technology's effect has changed the health care product because of the increase in the quantity and quality of resources drawn into the health care market.

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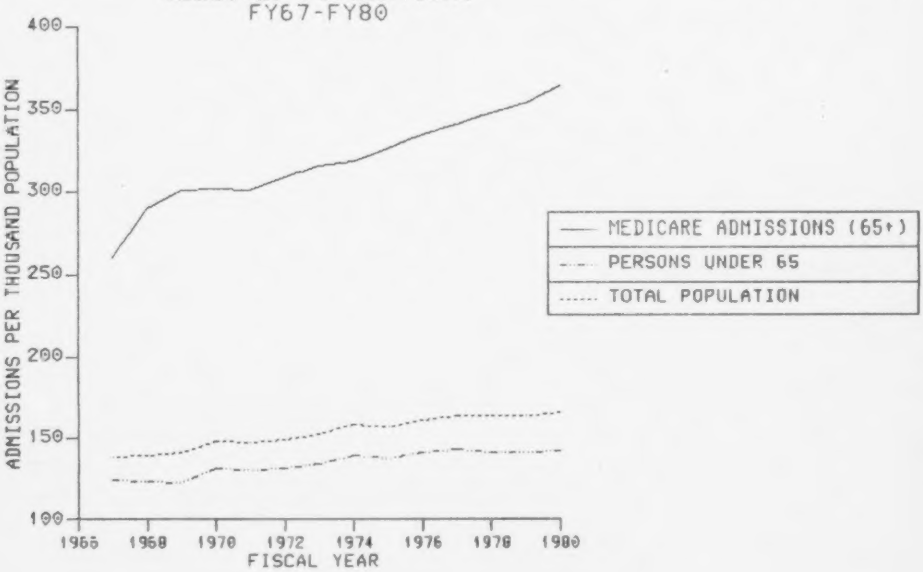
[5] Reference cited in footnote 1.
[6] Reference cited in footnote 1.

In the 1981 "Health: United States" publication, the U.S. Public Health Service claims that physician visits have actually decreased for the population as a whole between 1973 and 1979. However, rates of hospitalization and the number of nursing home residents have increased. These increases alone are not large enough to account for the rise in expenditures resulting from greater health care consumption. Therefore, changes in the complexity and amount of services provided during these physician visits or episodes of institutionalization have accounted for a substantial part of the increase in health care expenditures, showing an increase in the use of health services per capita and in the intensity of services provided.

(*ii*) *Utilization*

In 1981, price inflation was the major factor accounting for increased hospital costs, but it also was a period of growth in the use of hospital services. Increased use of hospital facilities accounted for over 20 percent of the increased growth in hospital care spending in 1980 from 1979. In-patient days in community hospitals were 3.6 percent higher than in the previous year, the highest annual increase since the implementation of the medicare and medicaid programs. Hospital use by persons age 65 and older represented approximately one-quarter of the increase in community hospital in-patient days between 1979 and 1980. (Chart 4 shows the growth rate of hospital days, 1967 to 1980, for the under age 65 and over age 65 populations.)

CHART 4
SHORT-STAY HOSPITAL ADMISSION RATES
SELECTED POPULATIONS
FY67-FY80



SOURCE: Fisher, Charles R., "Differences by Age Groups in Health Care Spending," Health Care Financing Review. Spring 1980. and Unpublished data: HCFA, 1982.

Although the number of physician consultations (visits) has remained the same or possibly declined, the National Center for Health Statistics reports that the number and types of services provided during consultations has steadily increased. Rising surgical rates and increased out-of-hospital laboratory tests have contributed to this increase in intensity of care per physician visit.

This intensity, or increase in service utilization, is not isolated to just hospital and physician care. Drugs constitute a significant factor in the treatment of illness. Fifty-nine percent of physician consultations result in at least one prescription for medication.[7] Although the number of prescriptions per capita may not increase, pharmacological advances in drug therapy are expensive and result in a high product price.

The Public Health Service reports that a growing population attributed to the remaining 8 percent of the growth of health care expenditures in 1980. Today, it is the changing age distribution, specifically the increasing proportion of people 65 years of age and over, that is having an effect on health expenditures. In 1950, about 8 percent of the population was 65 years of age and over. By 1980, this group represented more than 11 percent of the population; and it is projected to exceed 12 percent by the year 2000.

2. PERSONAL HEALTH CARE EXPENDITURES AND UTILIZATION OF SERVICES BY THE ELDERLY

A. PER CAPITA EXPENDITURES

(*i*) *Hospital Service*

The elderly consume a much larger share of health care services than the younger segment of the population. The most striking example is in hospital care, the largest health care expenditure category. In 1980, per capita expenditures were $307.87 for hospital services for the under 65 population and $1,086.72 for the over 65 population. The rate of growth in hospital expenditures has also been greater for the elderly than for those under age 65. From 1967 to 1980, the per capita growth in actual dollars for hospital care increased 381 percent for those under 65, and 397 percent for those over 65.[8]

(*ii*) *Physician Services*

Although the difference is not as great as hospital expenditures, per capita expenditures for physician services were also higher for the elderly than the under age 65 population. In 1980, expenditures per capita for the elderly for physician services were $471.26. This is 282 percent more than the $167.23 that was spent per capita for the under age 65 population for physician services.[9] In actual dollars, the total growth in physician expenditures per capita from 1967 to 1980 increased 272 percent for those under 65 and 376 percent for those over age 65.

These per capita expenditures display important trends in recent developments in health care spending. In real terms, holding inflation at a constant 1977 dollar amount, total per capita spending for hospital and physician care for the under 65 population grew annually at a much slower (3.7 percent) rate than for the elderly (4.6 percent). (Chart 5 illustrates the real growth of total (physician and hospital) expenditures per capita for the under 65 and over age 65 populations.)

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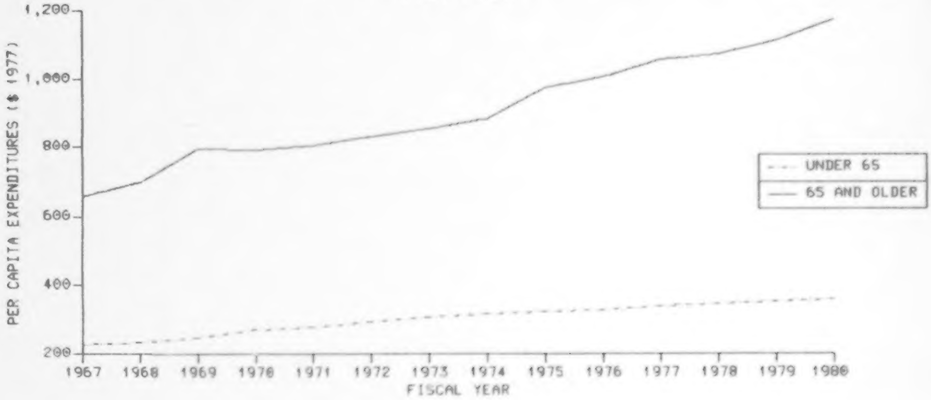
[7] Gibson, Robert M., and Waldo, Daniel R., "National Health Care Expenditures, 1980." Health Care Financing Review, September 1981, p. 10.

[8] Health Care Financing Administration, unpublished data, 1982.

[9] Reference cited in footnote 8.

CHART 5

REAL PER CAPITA HEALTH CARE EXPENDITURES
ELDERLY AND NON-ELDERLY
FY67-FY80



B. UTILIZATION OF SERVICES

(*i*) *Hospital Service*

The utilization of hospitals increases dramatically with age. The NCHS reports that in 1979 the hospitalization rate of persons age 65 plus was two and one-half times greater than that of younger persons. While persons 65 plus made up 11 percent of the population, they accounted for 25 percent of total hospital stays. Persons 85 plus have the highest utilization rates of any age group (507 stays per 1,000 population, compared with 306 stays per 1,000 population in the 65 to 74 age group). In addition, the elderly stay in hospitals longer than younger persons.

Charts 6, 7, and 8 illustrate the incidence of hospitalization, number of hospital days, and duration of stays by age group.

CHART 6

INCIDENCE OF HOSPITALIZATION, ALL AGES AND ELDERLY, 1979

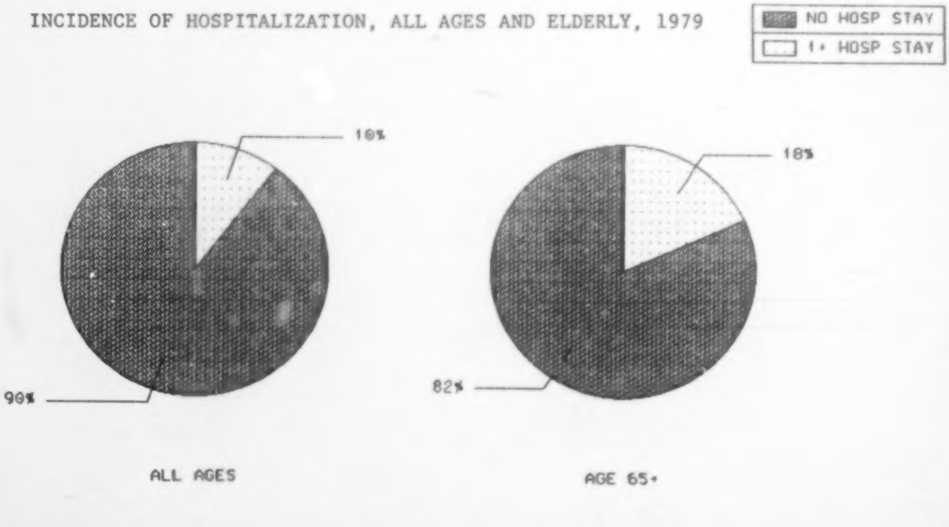
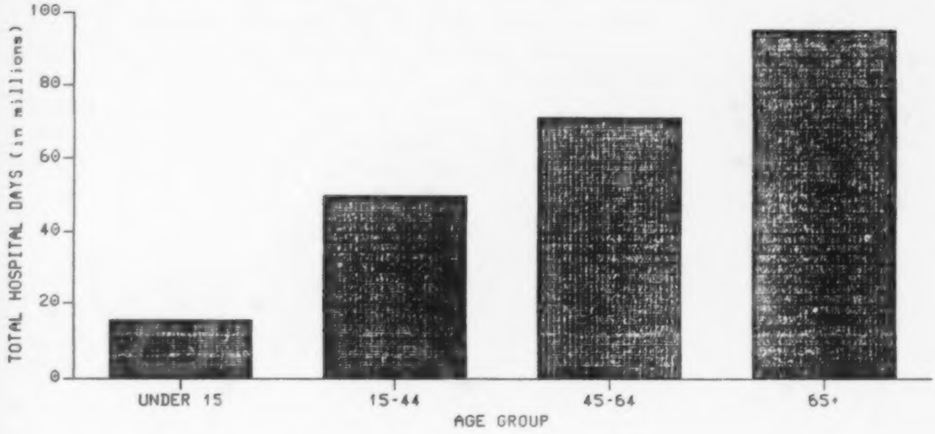


CHART 7

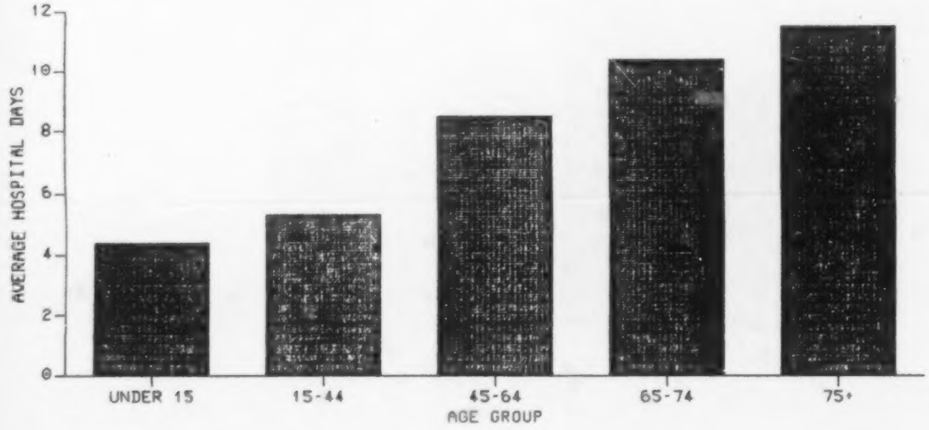
TOTAL SHORT-STAY HOSPITAL DAYS BY AGE GROUP, 1978



SOURCE: National Center for Health Statistics

CHART 8

DURATION OF STAYS IN SHORT-STAY HOSPITALS
AVERAGE HOSPITAL DAYS BY AGE GROUP
1978



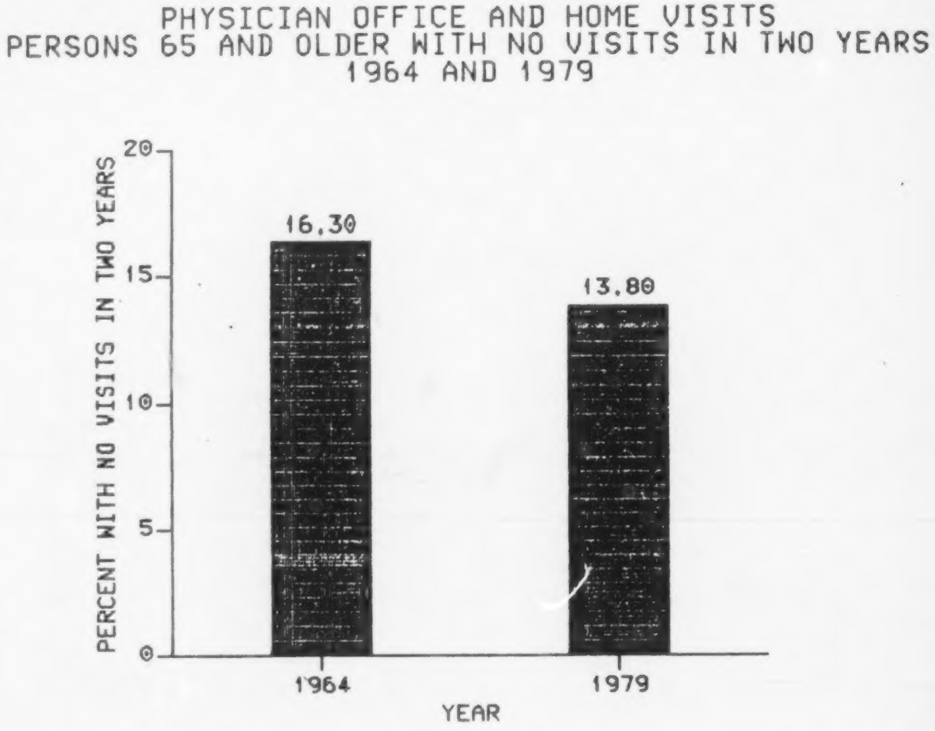
SOURCE: National Center for Health Statistics

While the aged will continue to account for an increasing share of total hospital usage in the future as the population ages, it is important to note that most persons age 65 and over are not hospitalized in any given year. Data from the 1979 health interview survey reveal that fewer than 2 of every 10 persons age 65 plus were hospitalized in 1978 compared to 1 in 10 in the under-65 population.

(*ii*) *Physician Services*

As with hospitals, utilization of physician services increased with age. The NCHS reports that persons under age 65 average 3.2 office and home visits per year, while that number jumps to 4.8 visits for persons age 65 to 74, and 5.1 for those age 75 and above in 1979. Eighty percent of all persons age 65 and older have seen a physician at least once during the previous year, and less than 14 percent have not seen a physician in 2 or more years. (Charts 9 and 10 illustrate the average number of visits by age group.)

CHART 9



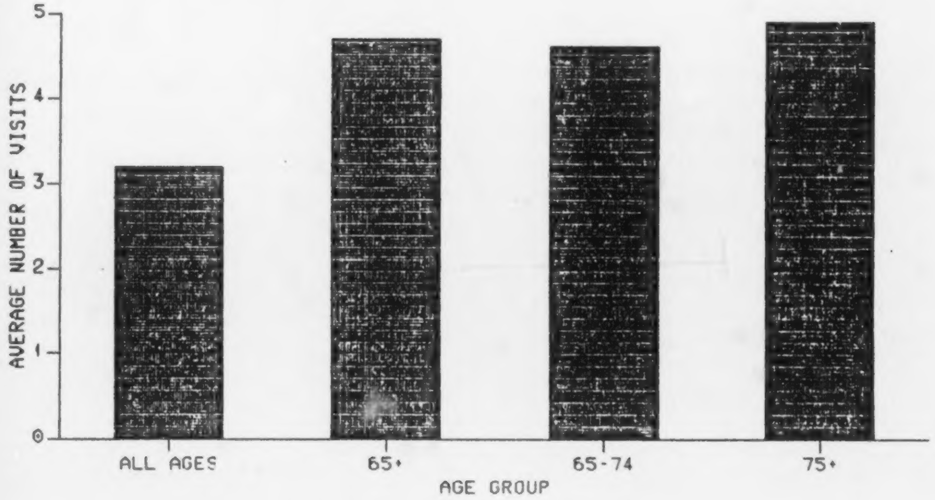
SOURCE: National Center for Health Statistics

(*iii*) *Nursing Home Care*

Another area of high utilization by the elderly is nursing home care. People aged 65 and above account for approximately 90 percent of nursing home residents. During the 5-year period 1975–80, the days of nursing home care increased more than 3 percent annually, while the U.S. population over age 65 rose 2.7 percent per year. In 1980, input prices, such as the costs for labor and technology, increased 10.1 percent (higher than 1975–80), while growth in days of care provided (less than 3 percent) was lower than the previous 5-year average. Spending for nursing home care is growing rapidly at 16.6

CHART 10

PHYSICIAN OFFICE AND HOME VISITS
BY PERSONS 65 AND OLDER
1979



SOURCE: National Center for Health Statistics

percent.[10] Despite slowing utilization rates, costs are continuing to rise rapidly.

These differences in per capita expenditures and utilization between the elderly and the below age 65 population show the difference in intensity of services between these two groups. These differences reflect the more serious nature of illness and greater prevalence of chronic conditions among older persons. As displayed in charts 6–10, the elderly have more physician visits per person, higher rates of hospitalization and more days of care in short stay hospitals and nursing homes than younger people. The Health Care Financing Administration (HCFA) estimates that in 1978, the most recent year for which they have data, the elderly accounted for 29 percent of total health care expenditures, although they comprised only 11 percent of the population.

3. Funding for Health Care

Since medicare covers over 90 percent of the age 65 and over population in this country, expenditures under this program act as fairly good indicators of health expenditures for older Americans. In 1981, total medicare benefit payments equaled $41.2 billion, a 21.5-percent increase over the 1980 total of $33.9 billion.[11]

For the 1979–80 period, the increase in expenditures of the medicare program was 20.3 percent. Even though this increase is more than the current 15-percent growth rate of general health care expenditures, it does not represent a significant increase in medicare expenditures.

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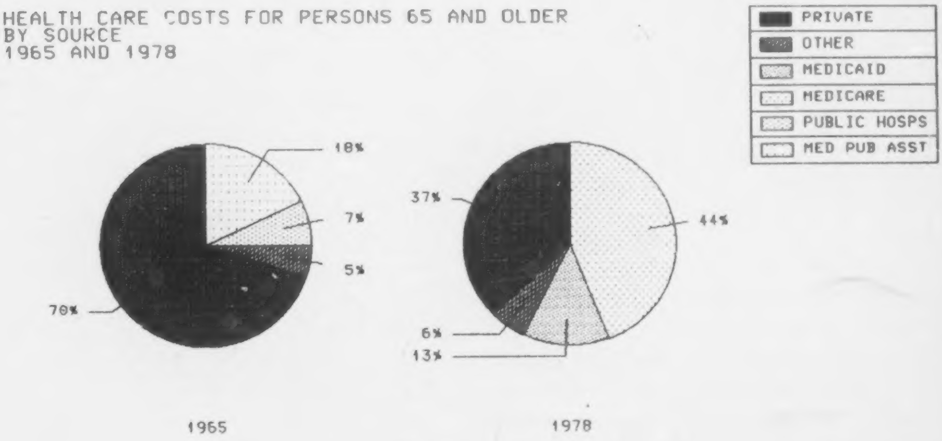
[10] Unpublished data, Health Care Financing Administration, 1982.

[11] Source: Health Care Financing Administration.

In the 15 years following enactment of medicare and medicaid, a significant shift in the proportion of public versus private sector health care funding for the elderly took place. In 1966, only 30 percent of all health care costs for persons 65 and older were paid with Government funds. By 1978, the public sector share of health care funding had risen to nearly two-thirds of the total cost. The rise in hospital costs has been particularly dramatic. Government funds currently pay nearly 90 percent of all hospital costs for those 65 and older, compared with less than one-half of these costs in 1965.

Public funding of health care for all age groups has been shifting from State and local governments to the Federal Government since 1965. In 1965, nearly half of the $2.6 billion in public funds spent on health care for persons 65 and older was from State or local sources. By 1978, only 14 percent of the $31 billion in public funds spent on health care for the aged came from State or local sources.[12] (Chart 11 compares the difference of funding sources for health care for the elderly for 1965 and 1978.)

CHART 11


HEALTH CARE COSTS FOR PERSONS 65 AND OLDER BY SOURCE 1965 AND 1978

Although public funding as a percentage of health care spending for the 65-plus population has been stabilizing in recent years, total Government costs—and particularly costs for hospital care, physician services, and nursing home care—are expected to continue to increase substantially in the decades ahead. The Health Care Financing Administration predicts that, if present trends continue, total nursing home costs alone will rise by nearly 400 percent between 1978 and 1990 (from $16 billion to $76 billion).

4. Conclusion

Health care expenditures have been rising rapidly in the United States and claiming a larger share of the Nation's resources during the past two decades. The causes for this increase are numerous and complex and include changes in the way health care is financed, the relative growth of various sectors in the health care economy, price inflation, population change, and changes in the utilization of health care and the health care product.

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[12] Chartbook, White House Conference on Aging, p. 96 (data source, Health Care Financing Administration).

The Nation is spending more every year in each category of health care expenditure. While price inflation is responsible for the majority of the growth, the intensity of services provided fuels this growth. This is especially true for the health care services the elderly consume when compared to the younger segment of the population.

Since the medicare program covers such a large percentage of the elderly population, it is not surprising that the fiscal stability of the hospital insurance (HI) trust fund, which pays for medicare part A benefits, surfaced as an issue the past year. Increasing numbers of the elderly, health care price inflation, and the growing intensity of services provided to the elderly may seriously affect the HI trust fund's ability to pay for hospital benefits in the future, providing current trends continue.

During the past two decades, the Nation's health care bill has been rising rapidly. It is highly sensitive to inflationary costs, thereby consuming larger portions of the Federal budget. While the Government is spending more on health care, so are the elderly. Subsequently, out-of-pocket health care expenses are increasing despite medicare enrollment, and current gaps in service and coverage for the elderly do not seem to be closing, but widening.

B. 1981 BUDGET: EFFECTS ON FEDERAL HEALTH PROGRAMS

While measures to reform current Federal health programs were introduced in the 97th Congress, the dominant 1981 actions in health were the result of one piece of legislation, the Omnibus Budget Reconciliation Act of 1981, and the need to reduce Federal spending.

The act, Public Law 97–35, was signed into law on August 13. 1981, and made the following significant changes in Federal health programs:

- —Increased beneficiary cost sharing and initiated provider reimbursement adjustments in medicare.
- —Reduced the rate of growth of Federal medicaid expenditures and added provisions giving States greater flexibility in implementing their medicaid plans.
- —Decreased emphasis on the health planning and regulatory approach to health care cost containment, and began the eventual phase out of PSRO's.
- —Transferred categorical health programs to block grants to the States.
- —Reduced funding for clinical training and research in health and mental health of the elderly.

1. Medicare

The Omnibus Budget Reconciliation Act of 1981 makes a variety of changes, some affecting beneficiaries directly, and other administrative changes which may indirectly affect beneficiaries.

A. BENEFICIARY COST SHARING

Beginning in 1982, the annual part B deductible for supplemental medical insurance, which includes coverage for physician services, was increased from $60 to $75. The part A deductible for in-patient hospital services was also increased from $204 to $260, effective January 1, 1982, to more accurately reflect current hospital costs. In addition, the daily in-patient hospital coinsurance amount required after the 60th day of hospitalization, or 20th day of nursing home stay, was previously determined for the calendar year in which a spell of illness began. Under Public Law 97-35, the coinsurance will now be determined for the calendar year in which services were furnished. Also, services incurred in the last 3 months of the preceeding calendar year were previously counted against the part A deductible. Under the new law, expenses incurred during the last quarter of the previous year will not be considered.

Congress rejected provisions that would have imposed new beneficiary copayment charges on stays in a hospital, turned down further increases in the part B premium, and retained the pneumococcal vaccination benefit under medicare.

B. HOME HEALTH AGENCIES

Previously, the limits for home health agency reimbursement were set at the 80th percentile of average per visit costs. Although these limits were established by type of service, they were applied to each agency as a single aggregate limit based on the agency's number of visits for each type of service. Section 2144 of the new budget bill reduces from the 80th to the 75th percentile the medicare reimbursement limits that are applied to home health agencies. This section also permits use of an alternative reimbursement methodology, providing the resulting limits are no less stringent than those that would be achieved using the 75th percentile limit.

Section 2152 of the omnibus budget bill addresses utilization guidelines for the provision of home health services. Under previous law, a condition for reimbursement was physician certification that the patient is homebound and needs intermittent skilled nursing care, physical or speech therapy, and that the establishment and periodic review of the care plan be conducted by a physician. In addition to these requirements, a provision of this new bill requires that utilization guidelines be established for home health agencies, and that provisions be made for the implementation of these guidelines through a program of post-payment coverage review of claims.

Section 2122 of the bill eliminates occupational therapy as a basis for initial entitlement to home health services. However, where an individual has otherwise qualified for benefits for such needs as skilled nursing care, speech therapy, or physical therapy, his or her eligibility for benefits may be extended solely on the basis of a continuing need for occupational therapy.

C. OPEN ENROLLMENT PERIOD

The Omnibus Budget Reconciliation Act of 1980 authorized a continuous open enrollment provision for medicare enrollment. The Budget Act of 1981 repealed this provision, reinstating the previous annual January-March enrollment period for medicare coverage.

D. HOSPITAL REIMBURSEMENT

The in-patient routine nursing salary cost differential, based on the theory that older patients require more nursing care than the average patient, was lowered from 108.5 percent to 105 percent of reasonable costs.

Public Law 96–499, the Omnibus Budget Reconciliation Act of 1980, provided that when a medicare beneficiary no longer requires acute hospital services but must remain in the hospital because no long-term care bed is available in the community, the hospital will be reimbursed at a daily rate equal to the estimated adjusted average medicare skilled nursing facility rate. The reduced level of reimbursement would not apply where a hospital's annual occupancy rate is equal to or greater than 80 percent. Section 2102 of the new budget bill amends this medicare provision by eliminating the 80 percent occupancy test. Under the provision, no reduction will be made in the payment rate where the Secretary determines that there is no excess of hospital beds in either the individual hospital or area.

Previous law authorized the Secretary, in determining the reasonable costs of service furnished to patients, to exclude costs estimated to be unnecessary in the efficient delivery of needed health care services. The 1981 reconciliation act lowers medicare's reimbursement limits from 112 percent to 108 percent of the mean under the methodology currently used. The new law also permits use of an alternate reimbursement methodology providing the limits are no less stringent than those that would be achieved using 108 percent of the mean.

2. MEDICAID

The Reagan administration proposed enactment of legislation to limit, or cap, Federal medicaid expenditures for fiscal year 1982, for a savings of $1 billion. The cap was structured to reduce Federal expenditures for fiscal year 1981 by $100 million below the current estimates for program costs. Expenditures would then be allowed to increase by 5 percent in fiscal year 1982, and with the rate of inflation in future years. The proposal also provided the States with more flexibility in structuring their individual medicaid programs. It was anticipated that by limiting Federal spending, States would have additional incentives to provide cost-effective services and to reduce fraud, abuse, and waste.

A. SPENDING REDUCTIONS

Congress did not accept the administration's plan for imposing a cap on State medicaid programs. Instead, the Omnibus Budget Reconciliation Act of 1981 provides for a reduction in Federal matching payments to all States by 3 percent in fiscal year 1982, 4 percent in fiscal year 1983, and by 4.5 percent in fiscal year 1984. Any State could lower the amount of such reductions in any year, if it adopts a qualified hospital cost review program; if unemployment in the State is greater than 150 percent of the national average; if it recovers 1 percent of Federal payments by controlling fraud or program abuse; or if it holds down increases in medicaid spending below certain target levels. Congress rejected efforts to reduce the minimum rate of Federal matching for medicaid services, currently set at 50 percent.

B. RELAXATION OF REIMBURSEMENT REGULATIONS

Public Law 97–35 includes a number of provisions designed to give States increased flexibility in designing and implementing their medicaid programs.

Prior law required that medicaid payment methodology match the medicare payment methodology for in-patient hospital services. Public Law 97–35 eliminates this requirement and now requires that: "State payments for such services be reasonable and adequate to meet the costs which must be incurred by efficiently and economically operated facilities in order to meet applicable laws and quality and safety standards, taking into account the situation of hospitals which serve a disproportionate number of low income patients." The legislation also authorizes States to purchase laboratory services and medical devices through competitive bidding or other arrangements, and to enter into prepaid agreements.

C. CHANGES IN ELIGIBILITY

All States having medicaid programs provide coverage to the "categorically needy." In general, these are persons receiving cash assistance under the aid to families with dependent children (AFDC) program or, aged, blind, and disabled persons receiving benefits under the supplemental security income program. Thirty-four States and jurisdictions have also elected to extend coverage to the "medically needy." These are persons whose incomes and resources are large enough to cover daily living expenses, according to income levels set by the State (within certain limits) but not large enough to pay for medical care, provided that they are aged, blind, disabled, or members of families with children.

In order to give States increased flexibility in designing their medicaid programs, section 2171 of the 1981 budget bill modifies current law pertaining to conditions a State must meet if it chooses to offer coverage to its medically needy population. The law repeals the following requirements: (1) A State must provide coverage to all medically needy groups; (2) services for all medically needy groups must be comparable in amount, duration, and scope; (3) States must offer a minimum number of services to this population group; (4) States must offer a mix of institutional and noninstitutional care and services. The law retains the medicaid statewideness requirement (that all services be consistently delivered throughout the State) and the requirement that a State must offer home health services to any person eligible for skilled nursing facility care.

Section 2171 of Public Law 97–35 places the following requirements on medically needly programs: (1) If a State provides medically needy coverage to any group, it must provide ambulatory services to children and prenatal and delivery services for pregnant women; (2) if a State provides institutional services for any medically needy group, it must also provide ambulatory services for this population group; and (3) if the State provides medically needy coverage for persons in intermediate care facilities for the mentally retarded, it must offer the same mix of institutional and noninstitutional services to all groups in its medically needy program as required under law previous to this act.

Under the revised medically needy provisions, States will continue to utilize, for purposes of making eligibility determinations, the same methods of determining an individual's income and resources. Further, under the new requirements, States will not be able to extend medically needy coverage to individuals not covered under prior law.

D. WAIVING "FREEDOM OF CHOICE" FOR PATIENTS

The new law authorizes the Secretary to waive certain requirements of law to achieve certain program purposes provided he or she finds them to be cost effective, efficient, and not inconsistent with program intent. Under this authority, the Secretary may approve restrictions on providers or practitioners from or through whom an individual may obtain services (other than emergency services) provided: (1) Such providers or practitioners accept and comply with the reimbursement, quality, and utilization standards under the State plan; (2) such restrictions are consistent with access, quality, and efficient and economic provision of services; and (3) the restriction does not discriminate among classes of providers on grounds unrelated to their effectiveness and efficiency in providing care.

E. LONG-TERM CARE

One landmark provision of the legislation permits automatically renewable waivers for States to provide coverage for a range of home and community based services pursuant to an individual plan of care to persons who would otherwise require institutional services. The total costs for all services provided to these individuals may not exceed, on an average per capita basis, the total expenditures which would be incurred for such individuals if they were institutionalized. This provision could potentially have significant impact on long-term care and the elderly. A complete discussion of this provision is included in the chapter on long-term care.

3. PROGRAM MANAGEMENT REDUCTIONS: HCFA

Besides all the reductions and changes to the medicare and medicaid programs enacted in Public Law 97–35, program management funding reductions were initiated for the Health Care Financing Administration, the Federal agency responsible for these programs. Their budget for research and program demonstrations was reduced to $29.5 million in fiscal year 1982. This represents a 7.5-percent reduction from the $31.9 million allocated for this function in fiscal year 1981. Other program management functions were affected by the reductions, such as the budgets of contractors who are responsible for processing claims for medicare and medicaid reimbursement, and significant manpower reductions within the Health Care Financing Administration.

4. Phasing Out PSRO's and Deemphasizing Health Planning

Administrative changes that have caused concern among many factions within the health care industry are the provisions relating to professional standards review organizations (PSRO's), who are responsible for medicare utilization review. Our new provision requires the development of performance criteria and assessment, no later than September 30, 1981, on the relative performance of each PSRO in: (1) monitoring the quality of patient care; (2) reducing unnecessary utilization; and (3) managing its activities efficiently. Based on this assessment, the Secretary of DHHS is authorized to terminate up to 30 percent of current PSRO's during fiscal year 1982. The Secretary is required to report to the Congress by September 30, 1982, on his assessment of relative PSRO performance and any determinations made not to renew agreements.

The new law also modifies provisions pertaining to PSRO agreements by specifying that such agreements may be for a maximum of 12 months and may be terminated upon 90 days' notice by the Secretary with no formal hearing required. A termination of an agreement is not subject to judicial review.

The use of PSRO's was also altered relative to the medicaid program. Currently, contracts are made with PSRO's to conduct review of services provided to medicare and medicaid patients. The Federal Government finances 100 percent of the cost.

A new provision provides States with the option of contracting with PSRO's for the performance of review functions under terms and conditions similar to those contained in an agreement between a PSRO and the Federal Government for medicare review. Such review may not be inconsistent with performance of review under the PSRO law. To the extent that PSRO's perform medical or utilization review functions required by law for medicaid, such requirements shall be deemed to be met, provided the State provides such assurance of satisfactory performance as the Secretary may require. The section further authorizes 75-percent Federal matching for PSRO review of medicaid services.

Some individuals within the health care industry question the effectiveness of these provisions. PSRO's are thought by some to aid in the process of evaluating appropriate spending of the medicare dollar for covered services. Critics of these organizations have felt that their administrative costs exceeded their savings through utilization review. If these organizations are phased out, the money that could be saved through their review would be lost. Further, the utilization review function would then be performed by each medicare and medicaid contractor faced with budget reductions to carry out their current functions. Therefore, even though the review authority would be covered by the contractors, their ability to do effective review is questioned.

Although the administration originally proposed in their 1982 budget to phase out health planning over the 1981–83 period, consistent with a 2-year administration timetable to develop and carry out health financing reforms intended to encourage competition in health care, Public Law 97–35 did not phase out the program. It amends the program to reduce 1982 authorizations for health systems agencies (HSA), State agencies and planning centers. It also permits States to operate their own planning program without an HSA and increases the certificate of need dollar tolerance limit for review to: $600,000 for capital expenditures, $400,000 for major medical equipment, and $250,000 for new institutional services. In 1982, the total appropriated for the health planning function was $85 million, a 2.2 percent reduction from the 1981 appropriated amount.

5. BLOCK GRANTS

Other than a reduction, or reduction in the increase of funding levels, the most significant action in Federal health service, training and research programs was the transfer of 21 Federal categorical health programs to block grants to the States.

The Omnibus Budget Reconciliation Act of 1981 established four health block grants: (1) Preventive health services; (2) alcohol, drug abuse, and mental health; (3) primary care; and (4) maternal and child health. The primary care block will become effective in fiscal year 1983, and the remaining three are effective as of fiscal year 1982.

The enactment of these block grants represents a major shift from categorical, federally administered programs, long viewed as fragmented and duplicative, to more flexible, State administered programs. States will now have greater ability to use program funds within each block in ways best suited to State and local needs. Special provisions were added, however, to retain 1981 proportions of funds spent on three programs of particular relevance to the elderly—community health centers, community mental health centers, and the hypertension control program.

In addition to the effort to eliminate Federal barriers to coordinated State and local planning and programs, the block grants were also an attempt to lessen Federal administrative requirements and program duplication in hopes of achieving savings that could be used to offset the overall 25-percent reductions from fiscal year 1981 funding imposed on these programs. However, the Congressional Budget Office (CBO) estimated in its report, "An Analysis of President Reagan's Budget Revisions for Fiscal Year 1982," March 1981, that the budget reductions in the block grant programs would probably result in large cutbacks in the services currently funded through the programs involved.

The actual amount of cutbacks will depend on factors such as compensating increases in State and local funding and offsetting administrative savings and efficiencies resulting from consolidation. However, CBO and the National Governor's Association view it unlikely that many jurisdictions, faced with tax-limitation referenda and other fiscal constraints, will find sufficient additional revenues to compensate for the proposed cuts. Furthermore, the reductions in the block grant programs have been accompanied by additional proposals to limit funding for other health and social service programs.

The extent of the impact on the elderly of the block granting of these health service programs is difficult to assess since much will depend on the reaction of individual States. However, the reduction in funds along with the reductions in social service moneys, such as title XX, do indicate a general reduction in State ability to provide services. In addition, programs such as community health and community mental health centers previously had special emphasis provisions for the elderly which are not contained in the block grants.

Since legislation creating these block grants repealed existing legislation governing the categorical grant programs contained within them, the Mental Health Systems Act, which was due to become effective on October 1, 1981, was also repealed. The act had been viewed by many as a step forward in meeting the mental health needs of underserved populations, including the elderly.

6. Clinical Training and Research

Although funding for clinical training was significantly reduced in several Federal agencies' budgets, the authorized levels for research were at least maintained at the previous year's levels, with some marginal increases.

A. NATIONAL INSTITUTE FOR MENTAL HEALTH

The Center for Studies on Aging in the National Institute on Mental Health (NIMH), established in 1975 and fully operational in 1978, is the main focus for clinical training and research in mental health for the elderly. Although the establishment of the center represented a significant initial step forward, the total number of dollars given to the center and to research in the past 3 years remained the same, 4.5 percent of the total NIMH budget. This $7.5 million spread across the 25 million people over 65 in the United States amounts to 30 cents per person.

The 1981 Omnibus Budget Reconciliation Act continued appropriations for the center's research at the same level as 1980. Total NIMH research funds were reduced 1.76 percent from 1980 to 1981, and 7.64 percent from 1981 spending obligations to the 1982 appropriated amount of $130,964,000.

The most serious reductions in mental health spending for the elderly were in clinical training. The center's budget allowed no new awards in 1981, only continuation grant funding was available. Current administration projections propose a phase out of this program by 1983, despite known critical shortages of mental health professionals and faculty trained in the mental health needs of the aged. Total training funds for the NIMH were also reduced 9.98 percent from 1980 to 1981, and the $60,788,000 appropriated for fiscal year 1982 is a 25.3 percent reduction from fiscal year 1981.

B. NATIONAL INSTITUTE ON AGING

Although the research budgets for the NIA were marginally increased, their clinical investigator program and geriatric medicine awards were continued in fiscal year 1981 only at the previous year's funding level.

Prior to 1974, the study of the aging process had not received much research support commensurate with its effects on every individual. Congress, therefore, created the NIA in 1974 and gave it the responsibility for biomedical, social, and behavioral research and training in aging.

Research at the NIA is categorized into three areas: intramural research, extramural research, and research into epidemiological trends relevant to the elderly.

Extramural research is investigator initiated research funded through grants to the research community outside the NIA, such as universities and hospitals. The budget for these grants increased 8.9 percent in 1982 to total $61 million.

The NIA also funds its own research, or intramural research, which is not supported in the extramural community. Funding for this research equaled $14.4 million in 1982, a 9-percent increase over the 1981 budget amount.

The third category of NIA sponsored research is epidemiological research funded through contracts. Epidemiological research investigates many areas gathering data and information on certain groups within the aging population. Study in this area scans a wide variety of social, cultural, and health related topics potentially affecting the elderly. Funding in 1982 essentially remained at the same level as the 1981 figure, increasing 2.5 percent to $3.9 million.

The model nursing home project, sponsored by the NIA, discussed in the section on geriatric medicine, was not able to fund any activity in fiscal year 1982. Since the Congress could not agree on certain parts of the Federal budget, a continuing resolution was passed in late November 1981 and will expire in March 1982. While the House of Representatives provided funding for this program, the Senate did not. Since a continuing resolution takes the lower of the House or Senate figures, in fiscal year 1982, no funds were appropriated.

In fiscal year 1982 no new funds were appropriated for the NIA's academic research clinical investigator program or the geriatric medicine award. The programs continued with the same funding as previous years, with $1.3 million.

The NIA has been able to continue to fund their program to train physicians in geriatric medicine. $2.1 million is being spent in fiscal year 1982 for the equivalent of 157 full-time physicians to be trained in geriatric medicine.

The total budget for the NIA was increased for fiscal year 1982 to $82.17 million. This represents an 8.6-percent increase from the $75.65 million spent by the NIA in fiscal year 1981.

C. HEALTH RESOURCES ADMINISTRATION

Several promising geriatric educational and training programs were severely curtailed or terminated following the 1981 budget appropriations bill. One such program was the geriatric curriculum development grant program, administered by the Health Resources Administration. Begun in 1979, under section 788(d) of the Public Health Service Act, the program offered competitive grants to stimulate the integration of geriatric teaching into health professional schools. In 1979, 27 grants were awarded, from 150 applicants, for a 3-year period. One year followup site visits found interdisciplinary health care student teams making home visits to older adults; dental students on mobile dental units bringing oral health care to nursing home residents; freshman medical students adopting and monitoring the health of elderly clients throughout their schooling; and pharmacy students providing community drug education to older Americans. In 1981, the last year of the 3-year funding period, funding was withdrawn under the administration's rescission legislation. These geriatric curriculum projects are no longer being funded.

D. ADMINISTRATION ON AGING (AOA)

The Administration on Aging's gerontology career preparation program had its budget halved in 1981. This oldest continuously supported training program, begun in 1966, promotes and assists graduate schools of social work, administration, and the various health professional schools to become self-supportive in the development of long-term training programs in gerontology. Among its priorities are job training for the planning, management, administration, and delivery of community social and health services to older Americans; the development of teaching faculty in gerontology graduate training for minorities; and support for education institutions with substantial minority enrollments in urban and rural areas. In fiscal year 1980, 79 programs in a variety of disciplines and settings were funded out of a budget of $7.7 million. In fiscal year 1981, funding was cut over 53 percent to $3.6 million.

The overall AoA budget for research, training, model project demonstrations, and the long-term care gerontology centers (LTCGC's) totaled $54.3 million in 1980. In 1981, their budget total was reduced to $40.4 million, a 25.6-percent reduction. In 1980 and 1981, the total figures were distributed among four areas: Training (title IV–A), research (title IV–B), model projects demonstration (title IV–C), and LTCGC's (title IV–E).

	Percent
Research	8.9
Training	35.4
Model projects	49.5
LTCGC's	6.2

The continuing resolution for fiscal year 1982, which expires in March 1982, does not have the allocations for each expenditure category of title IV, which is up to the discretion of the Commissioner of the AoA.

E. OTHER RESEARCH ON ALZHEIMER'S DISEASE

One major area of aging related research that receives funding from three institutes of the National Institutes of Health is for senile dementia, especially Alzheimer's disease. The National Institute on Aging acts as a catalyst and facilitates most of the research in this area. Federal research in Alzheimer's disease has increased by more than 200 percent since the creation of the NIA as part of the NIH. As a result, it is now known that some 100 reversible conditions have physical and emotional conditions which can temporarily alter sensitive brain cells and mimic the symptoms of Alzheimer's disease. Many of these conditions respond to prompt treatment when they are accurately diagnosed.

In 1980, a total of $10.3 million was funded for research in Alzheimer's disease, an increase of 68.1 percent from 1979. The funds were distributed as follows: NIA, $3.2 million; NIMH, $2.1 million; and the National Institute of Neurological and Communicable Disease and Stroke (NINCDS), $4.9 million.

The total $15.4 million allocated for Alzheimer's disease research in 1981 was 49.2 percent more than the 1980 total. The NIA increased their funding to $5.2 million, up 62.5 percent from 1980, while the NIMH funded amount grew 118 percent reaching $4.7 million in 1981. Funding the largest amount, the NINCDS funded $5.5 million, up 10.9 percent from 1980.

Under the continuing resolution for fiscal year 1982, total funding for Alzheimer's research reached $16.8 million, increasing 9.1 percent from 1981. While no institute decreased funding for Alzheimer's disease research, the growth rates were smaller than previous years. The NIA increased funding by 19.2 percent to $6.2 million, while the NIMH funded research at $4.8 million, up 2 percent from 1981. The NINCDS 1982 funding increased 5.5 percent to $5.8 million.

C. CONTINUING ISSUES IN HEALTH PROGRAMS FOR THE ELDERLY

Congressional action in 1981 on Federal health programs resulted in short-run expenditure reductions to control spiraling costs. What was not legislatively addressed were the causes of the growing costs or the problems with existing health programs. Among the most significant outstanding programmatic issues are: The systemic health care cost problem, the increasing gaps in coverage, the need for trained health professionals in geriatrics, and the lack of emphasis in health promotion for the elderly.

1. MEDICARE

A. HEALTH INSURANCE TRUST FUND

Discussion of possible future financial trouble for the HI trust fund commanded congressional attention for the first time in 1981. The rapid growth rate of health care expenditures, especially those for hospital care, make future congressional scrutiny of medicare costs inevitable in the coming years. Since part A benefits include hospital, nursing home, and some home health care covered under the medicare program, the HI trust is particularly vulnerable to increases in the cost of institutional care. The 284-percent increase in hospital costs over the past decade and the fact that medicare spending is growing faster than even the rate of health care spending for the general population are placing serious strains on the HI trust. For hospital care alone, medicare expenditures grew by 19 percent in 1981.

The table below shows the comparison of general health care growth rates to growth rates of the medicare program in the last 4 years:

RATES OF GROWTH

[In percent]

	Health care, general expenditures	Medicare
1977-78	11.9	21.6
1978-79	13.4	15.6
1979-80	15.2	20.3
1980-81	15.0	21.4
1981-82	(1)	[2] 17.0

[1] No estimate available.
[2] Estimated.

Source: Health Care Financing Administration, unpublished data, 1982.

Actual 1981 hospital cost increases have been 16.3 percent compared to the previous trustee projections of 13 percent. Therefore, the cost assumptions for 1981 and 1982 raised expenditure levels, thereby decreasing the trust fund balance.

The board of trustees show in a recent forecast a 4-percent increase in projected expenditures for hospital benefits. This will offset a 2-percent decrease in projected income for the trust fund by 1990. Income for the trust fund is generated through social security payroll deductions. This change in expenditures is based on a 2-percent upward revision in previous assumptions about per diem hospital costs over the decade. The trustees revised their forecasts because hospital cost increases exceeded expectations this year.

While the HI trust fund is not in imminent danger of being unable to provide benefit payments for medicare beneficiaries, the present financing schedule is not adequate to pay benefits over the next 25 years. According to the 1981 annual report of the social security trustees, the HI tax rates currently specified in the law are sufficient to cover program expenditures for the next 6 to 8 years. But, as early as 1987, a $1.2 billion deficit is expected, growing to an $18 billion deficit in 1990.

Concerns about the economy as a whole have drawn the attention of the Federal Government to the growing costs of the medicare program. The added concern about the future solvency of the HI trust fund has further increased pressures to find some method to control the growth of medicare spending.

B. GAPS IN PAYMENT

Nearly 29 million persons, 90 percent of the aged 65 and over population of the United States, are medicare beneficiaries. Even though medicare expenditures grew faster than the rate for general health expenditures, and the majority of the elderly are covered by this program, out-of-pocket spending continues as a serious concern for the elderly. Persons aged 65 and over paid 36.8 percent of their health care through private payments in 1978. In 1965, the elderly paid 70.1 percent for personal health care through private funding channels.

Since hospitals are required to accept medicare reimbursement as full payment for medicare patients, very little is paid directly by the elderly for hospital care. By comparison, in 1965, before the medicare program, the elderly paid 13 percent of hospital costs directly, compared to less than 5 percent in 1977.[13]

The story for out-of-pocket costs for outpatient care is quite different.

Gaps in coverage and benefits are the two most often mentioned problems with the medicare program. First, medicare does not address the long-term care needs of the elderly. Nursing home and home health benefits are essentially extended care benefits for recuperating from an acute illness or an acute episode of a chronic illness. Second, many items and services widely used by the elderly, such as hearing aids, eyeglasses, dental care, and most outpatient prescription drugs, are not covered under the medicare program.

In addition, in 1981, the monthly premium for medicare part B, supplemental medical insurance, was increased from $9.60 to $11 per month. Effective July 1, 1982, it will increase to $12.20. The medicare part A, hospital insurance, deductible was increased from $204 to $260 effective January 1, 1982. The increase in this deductible represents over a 27-percent increase in 1 year, historically, more than twice the annual increase.

New legislation this year also increased the medicare part B annual copayment to $75. This is the first increase for this annual deductible in 9 years.

Not only have the medicare premiums and deductibles increased; but private policies, which supplement medicare coverage have increased, or plan to increase, their membership rates as well. Most medicare supplemental private insurance, or medigap, policies cover medicare beneficiary liability for medicare deductibles and copayments, and cover some expenses for medicare-covered services that exceed the medicare allowable amount. Many of these medigap policies offered by Blue Cross and Blue Shield and other commercial insurance companies have already announced premium rate increases starting in 1982. Predominantly, the plans cite that up to 60 percent of the increased monthly premium amount results from increases in medicare cost-sharing, many of which were enacted in the Budget Reconciliation Act of 1981. When the medicare deductibles increase, premiums for medigap policies increase to offset this additional payment for an existing benefit. Further, since many medigap policies reimburse the medicare 20-percent beneficiary copayment of the reasonable charge for part B medical services, the general increases in health care costs and the stagnant assignment rates also contribute to premium increases in medigap plans. The combination of increasing deductibles and premiums in medicare, the rising cost of supplemental insurance, and the rising cost of uncovered health service result in increasing out-of-pocket expenses and shrinking benefits for the elderly.

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[13] This applies to those beneficiaries whose hospital stays were under 60 days. The 2 percent of medicare beneficiaries who experience longer hospital stays are responsible for a $51 copayment per day, increasing to $65 starting July 1, 1982.

Speaking on medicare coverage at a Senate Special Committee on Aging hearing, "Medicare Reimbursement to Competitive Medical Plans," Chairman John Heinz said:

> Congress must act now to get more and better health care for every medicare dollar. Doing so is vital to meeting the growing health care needs of older Americans today and in the decades ahead. In particular, we must begin to reverse the incentives contributing to soaring costs.

In the first session of the 97th Congress, there were a number of legislative proposals introduced that aim to bridge some of these service gaps. One bill is a regulatory change in requirements for nursing home services, and two add new programs to medicare.

(*i*) *Hospice Care—S. 1958*

Hospice care, currently not covered, would be added as an additional medicare benefit by a bill introduced by Senator Robert Dole. An identical bill was introduced by Representative Leon Panetta as H.R. 5180.

This bill would permit medicare beneficiaries who are terminally ill to elect to receive a full range of hospice services. These services include, of which few are currently covered, home health and physicians services, short-term inpatient care, respite care, homemaker services, drug therapy, and counseling.

A beneficiary could elect to receive hospice benefits no more than twice, each period lasting 6 months. Reimbursement to a hospice would be under medicare part A, for 100 percent of the allowable costs, not exceeding the amount that would have been spent by medicare had the patient opted for traditional medicare coverage. If elected by a patient, the hospice benefit would be in lieu of the medicare hospital benefit. The Health Care Financing Administration is currently conducting a pilot project for hospice services. This pilot project which began in October 1980, is to last 2 years in 26 sites. The National Cancer Institute, the Warner-Lambert Foundation, and several Blue Cross plans have prepared studies showing the cost effectiveness of hospice care.

(*ii*) *Medicare Part C—H.R. 3827*

Introduced by Representative Claude Pepper, this bill would create a new part C, to the medicare program, covering benefits not included in the existing parts A and B. Part C would cover out-of-hospital prescription drugs, dental care and dentures, eye exams and eyeglasses, hearing exams and aids, and biannual physical examinations. Voluntary, like part B, this new section would be financed through monthly premiums, equal to part B, and through an excise tax on cigarettes and distilled spirits. Unlike part B, part C would not require coinsurance from beneficiaries, but would reimburse approved providers 100 percent of the allowable cost for covered services or items through negotiated contracts with providers and standard "approved" items. This bill, while not affecting the existing parts A and B, seeks to establish a new part C and provide through the existing medicare program previously noncovered medical services and items that account for a considerable portion of out-of-pocket personal health expenditures of the elderly.

(iii) Coverage of Extended Care Services Act of 1981—S. 1754

Introduced by Senator John Heinz, this bill proposes to eliminate the 3-day prior hospitalization requirement for medicare beneficiaries to receive skilled nursing facility (SNF) services. The skilled care requirements for medicare SNF placement would remain unchanged. While extending coverage of an existing medicare benefit, this bill seeks to address the flexibility of a program regulation which prevents the provision of necessary services. A Department of Health and Human Services study found that some patients are inappropriately placed in a hospital to obtain medicare SNF coverage. Since hospital costs are three to five times higher than that of SNF's, elimination of this 3-day prior hospitalization requirement would provide savings that would be applied to less expensive SNF stays. The study concluded that eliminating this requirement would be unlikely to increase utilization beyond the present hospital/SNF levels since existing skilled care requirements would remain in law. This is a companion bill to H.R. 4227, which was introduced by Representative Ron Wyden

C. THE STATIC ASSIGNMENT RATE

A major concern to medicare beneficiaries is that every year fewer and fewer providers are willing to accept assignment. It is becoming increasingly difficult for beneficiaries to find a provider who is willing to accept the medicare rate.

When a physician "accepts assignment," he/she accepts the medicare allowable amount for that service. Medicare pays 80 percent, usually directly to the physician, and the beneficiary is responsible for the remaining 20 percent.

If the physician chooses not to accept assignment, the beneficiary is faced with two situations, the bureaucratic paperwork and the responsibility for payment. Addressing the paperwork, George Voita, a medicare beneficiary, testified at the Senate Special Committee on Aging hearing that:

> Under the (current) system, I receive the bill from the doctor, a form for medicare, and a form from the insurance company. By the time I sort out who pays what costs, I'm confused.

Regarding payment, the beneficiary first pays the physician, whatever the charge, in full. Then the beneficiary must file the medicare claim form and wait for the program to directly reimburse him for the "allowed amount" which was, on the average, 22.4 percent less in 1980 than the physician's charge for the medical service.

In 1975, the percent of services assigned nationwide was 51.8 percent.[14] This figure varies drastically by region and State. The average for the northeastern United States equaled 56.8 percent, while that for the north-central States equaled 35.7 percent. There are also variations among regions: Rhode Island's assignment rate was 80.6 percent, while neighboring Connecticut's equaled 31.2 percent. In the West, Colorado was the highest at 50.3 percent, while Oregon was the lowest at 18 percent. Although the assignment rate varies dramatically from region to region, the national average has remained static. The assignment rate was 51.8 percent in 1980, and has been relatively unchanged since 1974.

There are generally three factors involved in a physician decision to accept or not accept medicare assignment. The size of the bill and the potential reduction by medicare is one factor. HCFA estimates that in 1975, the total charges submitted to medicare were reduced 18.4 percent. Next, the ability of a beneficiary to pay a particular bill is a heavily weighted factor. For instance, a physician may accept assignment for an indigent patient, but one who has medigap coverage may receive a higher charge for the same service. A physician may also accept assignment if a patient is going to incur high medical charges in any 1 year. HCFA found that if a beneficiary incurs $2,500 or more in health expenses in 1 year, 60.8 percent of those charges would be assigned. They conclude that on an annual basis, 9.7 percent of all medicare beneficiaries are liable for $100 or more as a result of claims that are unassigned.[15]

This HFCA analysis showed that of total physicians charges (excluding those portions above the allowable amount) the payments channeled through, or reimbursed by, medicare amounted to 62.3 percent, as shown in chart 12. This takes into account the monthly premiums beneficiaries pay to receive part B benefits. If one excludes the beneficiary premium payout, medicare part B payed 30.8 percent of total charges in 1975. Although chart 12 shows, for 1975, the percentage of medicare reimbursement for physician services by funding source, program dollars (trust fund, premiums), deductibles, insurance and and nonassigned claims, have not changed considerably in recent years.

The past year, two bills were introduced whose objectives are to control the assignment rate. The first bill, S. 1566, specifically addresses the assignment problem. The other, introduced by Senator John Heinz, chairman of the Senate Special Committee on Aging, deals with increasing medicare enrollment in HMO's. This particular bill, S. 1509, is discussed in section E on health care competition.

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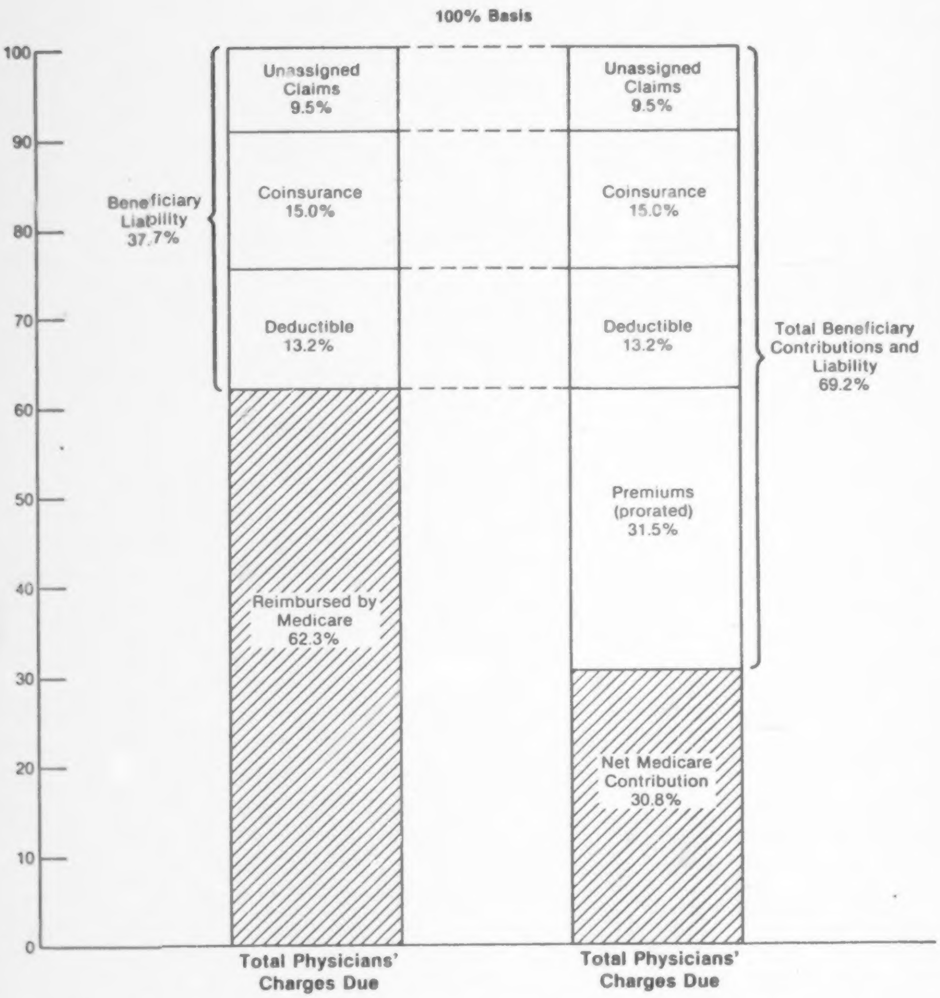
[14] Ferry, Thomas P.; Gornic, Marian; Newton, Marilyn; and Hackerman, Carl. "Physicians' Charges Under Medicare: Assignment Rates and Beneficiary Liability," Health Care Financing Review, winter 1980, p. 50.

[15] Ferry et. al., at p. 59.

CHART 12

Total Physicians' Charges Due: Comparison of Medicare Reimbursement with Net Medicare Contribution for the Aged, 1975



SOURCE: Ferry, Thomas P.; Gornick, Marian; Newton, Marilyn; and Hackerman, Carl. "Physicians' Charges Under Medicare: Assignment Rates and Beneficiary Liability," Health Care Financing Review, Winter 1980.

Payment for Physician's Services Act of 1981—S. 1566

This bill, introduced by Senator Howard Metzenbaum, is a comprehensive reform of the current medicare part B reimbursement system for physicians. First, it restructures reimbursement from the existing reasonable charge methodology to negotiated fee schedules based on a nationwide relative value scale for each allowed procedure. Next, this bill provides that this list be available to beneficiaries along with a list of participating providers in the region. The payment for services will be paid to the physician, and the medicare part B contractor will then become responsible for collecting the 20-percent beneficiary copayment. This bill includes two sets of incentives for participation in this newly structured program. Physicians would receive Federal financial support for continuing education in geriatric medicine and relief from the medicare claims filing process. Beneficiaries could experience decreased out-of-pocket expenses and a greater availability of physicians accepting assignment. This bill does not encompass durable medical equipment, which is also reimbursed on a reasonable charge scale and experiences a declining provider assignment rate.

D. DURABLE MEDICAL EQUIPMENT

Both beneficiaries and suppliers frequently voice dissatisfaction with medicare payment levels for durable medical equipment (DME). Medicare expenditures for DME are estimated at $125 million per year. Beneficiaries are often hard-pressed to find, in their communities, a supplier who is willing to accept medicare assignment.

For two items, standard hospital beds and wheelchairs, payments may not exceed the lowest supplier-charge level at which those items are widely available in that locality. In a 1981 study, the General Accounting Office (GAO) found that there were large geographical areas in some States they reviewed, with high medicare beneficiary populations where these two items were not available at all at the medicare allowed amount of reimbursement. This condition was less critical for rental than purchased equipment, as more suppliers are willing to accept medicare assignment for rented equipment.

Medicare carriers have had problems with the lowest charge level since the first quarter of 1979, when most carriers began applying it. The GAO claims that different carriers have calculated and applied the provision differently. Also, many carriers surveyed were inaccurately calculating the lowest charge level. Further, neither beneficiaries nor physicians have been informed by carriers of HCFA where lowest charge level equipment may be located in their communities.

GAO also reports that the unavailability of these items for purchase at the lowest charge level tends to defeat the purpose of section 16 of Public Law 95-142. This provision, enacted by Congress in 1977, requires reimbursement based on the purchase of durable medical equipment if less costly than rentals. Since many durable medical equipment suppliers do not accept the assignment amount on purchases, this puts beneficiaries at a disadvantage because they would be paying more out-of-pocket for equipment than those who are able to rent.

E. SYSTEM REFORM THROUGH COMPETITION

The problem of spiraling health care costs has been a major concern of the Congress for at least the past 10 years. Various proposals and developments to control the health care system have essentially focused on regulatory approaches. Laws and programs were implemented to monitor utilization of services, reimbursement methodology, and the building of facilities in attempts to slow the growth of the industry. In the early 1970's, wage and price controls were applied to control the labor side of the health care system. Toward the end of the decade, in the 96th Congress, the proposed approaches to cost control centered on hospital cost containment and increased regulation in conjunction with national health insurance.

The "pro-competition" proponents believe market forces can effectively control the price and utilization of health care services. They contend that these market forces will occur if health care consumers are given choices from among competing benefit plans or health care arrangements, and if incentives were available for selecting the lower cost alternatives.

The "pro-competition" theorists believe that providing these circumstances would, in effect, force consumers to become more sensitive to insurance costs, and the costs of their covered services. To attract members, health care benefit plans would have to compete through price and benefit package for their share of the market. As a result, health care spending might lessen if premium costs are reduced through greater cost-sharing on behalf of the insured, or enrollment increase in alternatives to the traditional fee-for-services system, such as HMO's. The impact to the health care system of increased cost-sharing by beneficiaries would reduce the demand for services and increase the consumer's price sensitivity. The insuring plans would be pressed to hold down premiums and improve utilization controls, thereby negotiating with service providers for reduced rates. Providers also may be affected, and through this may organize into HMO's or other economic units to directly compete for beneficiaries.

(*i*) *Basic Elements of the "Pro-Competition" Strategies*

There are various system reforming "pro-competition" strategies currently proposed. Although they deal with the public or private sector, or both, they have four basic elements:

—Each consumer should be allowed periodically to join any one of the qualified plans. This is usually referred to as periodic multiple choice.

—Those who choose more costly insurance coverage directly bear that cost. To achieve this element, all financial help to purchase a medical plan will be in the form of a fixed dollar subsidy paid to a plan on behalf of an enrollee.

—All providers should have an equal stake in the medical marketplace. "Pro-competition" proponents feel there should be a uniform set of rules, such as mandating minimum benefit packages, and maximum subsidy levels.

—Medical care providers should be encouraged to establish themselves in economic units, such as HMO's and other group practices to compete for beneficiary membership through competitive pricing for quality health care services.

(*ii*) *Criticism of the "Pro-Competitive" Strategies for Health Care Reform*

From various segments of the health care industry a number of questions have been raised by the opponents of these theories to alleviate the problems of the health care system.

—Adverse selection is viewed as a drawback to a competitive strategy, particularly if individuals are not only permitted to choose among plans or plan options, but are also encouraged to do so by means of certain incentives, such as cash rebates. If employees are offered a choice between a low-cost option, containing more cost-sharing with fewer benefits, and a more costly plan with more comprehensive benefits and less cost-sharing, those employees who expected few medical expenses in the near future could be expected to choose the low-cost plan. Those members who expected high-cost medical bills would choose, or switch to, the higher option plan until their medical needs were satisfied. If this occurred, the cost of the higher option plans would increase dramatically, and the intended sharing of all risks over all groups would diminish.

—When given the choice for more health insurance, significant numbers enrolled in the Federal employees health benefits program, the health benefits program for all Federal workers, chose the comprehensive low-deductible plans. This leaves the question of whether individuals will actually choose less health insurance than they currently have, or whether they will choose the highest benefit plan that they could possibly afford.

—It is unclear whether, if offered incentives to choose low-cost insurance options, such as cash rebates, if individuals would actually underinsure themselves.

—One of the tenets of market-based economics is that the consumer has the knowledge to shop effectively. Since health care and health insurance are extremely complex issues, the costs of educating the public to efficiently shop in the medical marketplace may defeat any cost savings that may be realized through a "pro-competitive" approach to reforming the health care system.

—Through the principle of greater sharing of the costs of the health care purchased through higher copayments and deductibles, it is also unclear whether the cost containment hoped for will be cost shifting to the consumer, and not significantly reducing general health care expenditures in the form of increased out-of-pocket expenditures at the time of service delivery.

—An assumption of the "pro-competition" strategies is that by changing the incentives for insurance, provider pricing behavior will be influenced. With reduced benefits and higher copayment formulas under these new strategies, beneficiaries will be shopping for the lowest cost providers. Therefore, it is unknown how much the provision of quality care will be affected under these circumstances.

—None of the "pro-competition" plans for reforming the health care system address the long-term care system, which consumes a substantial share of all health care expenditures.

—None of these theories addresses implementing these proposals, or the costs associated with implementation.

(*iii*) *Impact on Medicare*

Legislation has been introduced in Congress, and the administration is also considering various plans under which most persons now covered by the public medicare program could purchase health insurance in the private sector using Government-funded vouchers. These medicare voucher proposals contain various incentives that are intended to encourage beneficiaries to choose (within limits) from among competing private plans with differing benefits and cost-sharing features as alternatives to the present medicare program. Advocates of the voucher proposals argue that such an approach, together with certain other pro-competitive initiatives, will foster greater competition in the provision of health services to medicare beneficiaries and moderate increases in health care spending for the populations served by that program. Critics of the voucher plans believe that such proposals will not achieve these objectives and are only measures to control Federal budget outlays for the medicare program.

Under a voucher approach, beneficiaries would be entitled to receive a fixed dollar subsidy which they would apply toward the purchase of a qualified health insurance plan from the marketplace. Under this approach, a beneficiary choosing to do so would voluntarily "opt out" of the medicare program and receive a voucher worth some specified face value amount toward the purchase of private coverage. At the time the beneficiary enrolled in such a plan, the voucher would be accepted as premium payment. If the value of the voucher were more than the cost of plan coverage, the plan (under some proposals) could refund any difference to the enrollee. If the value of the voucher were less than the plan premium, the enrollee would pay the difference out-of-pocket.

Most proposals for medicare vouchers would require that vouchers be used only for the purchase of qualified coverages. To qualify, plans would have to offer a minimum set of benefits (usually identical or similar to those now covered by the medicare program) and meet certain other requirements, such as those dealing with open enrollment periods, actuarial categories, etc.

An important feature of a medicare voucher is present and subsequent future values. At first, it would probably be based on an average of a current value of medicare benefits paid to beneficiaries. After this initial value is established, future adjustments could be indexed to the CPI or another inflation index, such as the GNP deflator, which acts as a broad measure of inflation in the economy. Future adjustments could also be tied to changes in actuarial experience of large area health care plans.

(*iv*) *Unanswered Medicare Voucher Questions*

While in the previous section criticisms were listed for the "pro-competitive" theories in general, there remain some that are particular to the medicare program:

- —Many argue that the proposed indices to make current the future values of vouchers, the GNP deflator and CPI, do not keep pace with health care cost increases. In this case, the overall value of vouchers decline over time.
- —There are increased administrative costs associated with private plans over the traditional medicare program, such as advertising, enrollment costs, premium taxes, reserves, and profit margins.
- —Questions remain on how the medicare program should be preserved to meet the needs of particular enrollee groups, such as end stage renal disease patients.
- —Regarding qualified voucher plans, no explanation has been given to the extensive nature of regulations that define qualifying requirements.

(*v*) *Legislative Update*

The following are synopses of the major pieces of legislation that take the "pro-competition" approach to health care reform. They address either private sector changes to health systems, medicare changes, or both.

Comprehensive Health Care Reform Act of 1981, S. 139

Dealing entirely with the private sector and not with Federal programs, the approach this bill introduced by Senator Orrin Hatch takes to enhance health care competition is by rearranging Federal tax incentives for employer-based health plans. Competition is to be encouraged by requiring large employers, as a condition of deducting premium contributions from their gross income, to offer their employees the choice of at least three competing health plans. Seeking to encourage enrollees to more actively participate in inpatient service decisions, S. 139 requires that at least one health plan offered contain a 25-percent cost-sharing provision for hospital services, until that amount exceeds 20 percent of an individual's family income. Tax free premium rebates will be offered as an incentive for enrollees to choose a high deductible or low-cost plan. Next, this proposal contains a minimum catastrophic protection proposal for all people regardless of employment by insurance pooling, additional prerequisites for tax deductible insurance plans, and increased medicare benefits. Lastly, this plan directly supports preventive care through favorable tax treatment and no coinsurance provisions.

Health Incentives Reform Act of 1981, S. 433

Introduced by Senators David Durenberger and John Heinz, this proposal, also reforming only the private sector health plans, attempts to restructure the tax environment as an incentive for employers to contract with competing cost-efficient plans for their employees. To obtain this goal, the bill seeks to increase competition in the medical marketplace through essentially three provisions. First, to encourage employer and employee selection of cost-efficient health plans, S. 433

limits the amount of the employer tax deductions for employee health plans. Next, by mandating multiple choice for plans, this bill seeks to create a competitive environment where plans can develop with limited numbers of providers. Finally, this proposal provides for equal employer contributions for health plans so that the amount an employer contributes for differing employee plans remains constant over all plans. It is further projected that through this reform package more plans would be encouraged to offer catastrophic benefits.

National Health Care Reform Act of 1981, H.R. 850

Addressing both the private and public sector health care plans, this bill operates on essentially two principles, restructuring Federal tax laws to foster increased competition and medical voucher-type contribution to join an approval health care plan. H.R. 850 was introduced by Representative Richard Gephardt. For those employers offering qualified plans, they will be excluded from income tax liability for premiums to a limit which would equal the average of all premiums in that area. If a worker chooses a plan with a premium below this average, he/she will receive the difference as a tax-free rebate. The self-employed and those who are employed without health care coverage, will receive a tax-free credit equal to the average premium charge. These prepaid plans will be mandated to accept all those who apply without regard to health status, have a yearly open season to allow beneficiaries to switch plans, and have a minimum benefit package.

The medicare program will operate under a voucher-like system where beneficiaries will receive a choice to either remain in the current fee-for-service system or use a contribution from the Government to purchase membership in an approved plan. This contribution would also be equal to the average premium charge for that area. As an incentive to beneficiaries to join, the approved health care plans must offer richer benefit packages than conventional medicare coverage. After 4 years operation, the medicaid program would be included in this strategy.

H.R. 850 seeks to contain health care costs by encouraging beneficiaries to join prepaid health care plans on a prepaid premium basis. This would then put the plan at financial risk to provide medical services.

Voluntary Medicare Option Act of 1981, H.R. 4666

H.R. 4666, introduced by Representative Bill Gradison, establishes a voucher program as an optional alternative to the current medicare program. This bill would designate health care areas within the United States based on regional differences in health care costs. The Voluntary Option Act would allow payments to be made on behalf of medicare enrollees to qualified plans. Each plan would be mandated to cover those services currently covered under the medicare program. The premium amount, if any, for which beneficiaries would be responsible, would be limited, yet changed as necessary to reflect changes in medicare cost-sharing. Rebates to members would be allowed if the plan charged less than the voucher amount.

After the initial reimbursement to the plan is set on the adjusted average per capita cost of medicare, it would be adjusted for the first

3 years of operation by the medical care component of the CPI. In later years, the reimbursement would be equal to the average premium rate of health plans and be adjusted annually by the GNP deflator.

Competitive Health and Medical Plan Act of 1981, S. 1509

Introduced by Senator John Heinz, chairman of the Senate Special Committee on Aging, this bill amends an existing Federal program (medicare) and reforms the method of reimbursement to health maintenance organizations (HMO's) and other prepaid health benefit plans through "procompetitive" measures. Under current law, medicare beneficiaries can only enroll in cost-efficient HMO's that are federally qualified under the Public Health Service Act, and in all but one case have those services reimbursed under a cost retrospective methodology. This bill restructures reimbursement to a prepaid per capita amount putting the HMO at risk to provide quality services. Further, plans qualified to receive medicare reimbursement are defined to include not only federally qualified HMO's, but others that fit the generic definition of competitive medical plans included in the bill.

This bill seeks to encourage competition in the health care system by offering beneficiaries a choice in selecting more efficient health care delivery systems, such as an HMO. By allowing competing plans to offer a richer benefit package than offered in the traditional fee-for-service system under conventional medicare coverage, it is anticipated that greater utilization of more cost-efficient health delivery systems will result. Therefore, the competing entities will not only be HMO's and other prepaid health plans, but also the fee-for-service system. S. 1509 is a companion bill in the Senate to a similar bill in the House of Representatives, H.R. 3399.

This bill was designed after the $3.9 million HCFA HMO demonstration project testing prospective risk capitation contracting for medicare beneficiaries. The project was developed to support increased HMO enrollment among medicare beneficiaries and the promotion of cost efficiency and competition in the medical marketplace. Four contracts are operating in order to test alternative prospective risk reimbursement methodologies, demonstrate incentives for beneficiaries to enroll by returning HMO savings as increased benefits and/or by contracting for the same or increased benefits at rates lower than fee-for-service costs. The experience to date shows that there are some increased benefits that have accrued to the medicare enrollees. Some of these benefits include: Decreased out-of-pocket expenses as compared to the traditional fee-for-service system, increased benefits beyond what medicare traditionally covers, the ability for beneficiaries to "budget" for their health care, and reduced confusing paperwork.

The Senate Special Committee on Aging held a hearing on "Medicare Reimbursement to Competitive Medical Plans" in July 1981. Members received testimony from beneficiaries enrolled in the HCFA HMO demonstration projects, physicians who treat medicare beneficiaries in HMO's, administrators of HMO's that are participating in this demonstration project, and aging interest group leaders. The beneficiaries reported that their experience in the HMO's not only helped them to orchestrate a very acceptable type of health care delivery, but also receive good quality care.

The physicians who testified thought that a more responsive continuum of available care results when medicare beneficiaries enroll in HMO's.

The HMO administrators stated that this form of health care delivery is beneficial to the medicare population because it offers increased benefits at decreased costs. The aging interest group leaders felt that this form of health care is a positive step in the coordination of a system of health care for the elderly which is responsive to their particular needs.

2. MEDICAID

Medicaid, while a Federal and State funded entitlement program, is administered by each State. Many of the problems of reductions in services and eligibility limitations of previous years continued in 1981, and probably will be exacerbated by the spending reductions enacted in the 1981 budget. The only State previously not offering medicaid, Arizona, has entered under a limited demonstration arrangement with HCFA.

While the medicaid spending reductions to the States will have an unknown impact on service levels, it is anticipated they will be maintained in some benefit areas, and decreased in others. Due to the general reduction in Federal funds going to the States, the revenues States allocated to their medicaid program may be channeled to other areas of equal or greater need.

Another factor that will have an impact on medicaid program service levels is the general health of a particular State's economy. Due to a State's reliance on revenues from such sources as sales tax, property tax, and user fees, their economic stability is more sensitive to varying factors in the overall national economy.

The cumulative effect of the above mentioned conditions has a strong possibility of resulting in benefit and eligibility cutbacks greater than just the Federal spending reductions will cause. For example, some States have already made proposals to lower the income eligibility test for medicaid coverage, eliminate optional services, such as eyeglasses and hearing aids, and establish copayments for covered medical services for some income groups. Since 40 percent of the States' budgets go to nursing homes for medicaid patients, the probability that elderly residents will experience eligibility changes and service cutbacks is likely.

The medicaid program has been plagued with the same programmatic issues for the last few years. Declining reimbursement levels to providers, elimination and reductions of services, fraud and abuse, and the burden of medicaid being the locus for long-term care have been of continuous concern to beneficiaries and the State agencies that administer the program. Since inadequate records are kept, it is difficult to cite how many elderly persons are covered under the medicaid program. Based on how many of the elderly have dual eligibility to both medicare and medicaid, HCFA estimates that upwards of 4 million aged persons are covered under the medicaid program.

A. IMPACT OF THE BUDGET RECONCILIATION ACT OF 1981

The major development in the medicaid program last year was the Omnibus Budget Reconciliation Act of 1981, which was outlined in the previous section. Of all the changes that were made to the program, those provisions that will have a considerable impact to program operations are section 2176, home and community based services, and section 2161, reduction in medicaid payments to States. A description of the reduction in medicaid payments to States is in the section on the budget, and the impact of the new provision for home and community based services is in the chapter on long-term care.

Medicaid had been an open-ended entitlement program since its inception in 1965. The Federal Government has matched whatever the States have expended under their programs, provided basic minimum requirements were met. The 1981 budget bill imposes a limit in the increase of Federal medicaid payments to States for the first time in the history of the program. While a State will be able to lower its level of reduction by meeting certain criteria, only six States are projected to be able to meet these qualifications. These States are New Jersey, Connecticut, Maryland, New York, Massachusetts, and Washington.

Since many States operate their own budget cycles independently of the Federal Government's, many have not had the opportunity to make significant changes to their medicaid programs in response to the new spending reduction levels enacted in the Omnibus Budget Reconciliation Act of 1981. It is, therefore, too soon to be able to judge the impact these changes will have on the elderly. But, as noted above, we can assume certain conditions for change that will affect the medicaid program.

B. ARIZONA JOINS THE MEDICAID PROGRAM

Arizona, historically the only State to not fund a medicaid program, approached the Department of Health and Human Services with a plan to test a different method of service delivery than is currently practiced under the program. Plans are to provide for prepaid arrangements, by county, to deliver medical services to the State's eligibles.

Arizona approached the Department of Health and Human Services to join the medicaid program because it, too, was feeling the drain on State revenues due to spiraling health care costs and growing utilization. It previously delivered care to the indigent in two fashions. First, for the State's population of indigent Native Americans, services were provided through the Bureau of Indian Affairs. For other persons, indigent care was structured by each county, using such resources as State and local tax revenues, and private and corporate giving. Care was delivered through neighborhood health centers and clinics, community hospitals, and limited fee for service delivery.

DHHS agreed in early 1981 to review Arizona's plans to establish a county system that would arrange for bids to be made by medical care, or insurance entities, to provide services through a capitated rate. Where no bids are made, a fee-for-service delivery system will be arranged. While still in the planning phase, operations are expected to commence in October 1982.

3. EFFORTS TO CONTROL FRAUD AND ABUSE

On December 9, 1981, the Senate Special Committee on Aging, in conjunction with the Senate Finance Committee, conducted hearings to review the performance of the Inspector General, Department of Health and Human Services, in combating fraud, waste, and abuse in programs under the jurisdiction of the Department.

The Office of Inspector General, DHHS, was created in 1977 with the enactment of Public Law 94-505 at the culmination of a series of congressional hearings and investigations detailing significant problems in the administration of the medicare and medicaid programs. Virtually every aspect of the health programs and every provider class had been implicated. Problems were found in the operation of nursing homes, prepaid health plans, boarding homes, medicaid clinics, clinical laboratories, home health agencies, pharmacies, suppliers, vendors, and others.

At that time, the Committee on Aging estimated loss to the Government, as a result of these fraudulent activities, equaled 10 percent of the total medicare and medicaid expenditures—about $3 billion. A 1975 congressional survey of the Department's ability to combat fraud demonstrated the continuance of the problems was related to a number of systemic deficiencies:

—Only 10 of the Department's 129,000 full-time employees were criminal investigators with departmentwide responsibility.

—Multiple audit and investigative units operated out of the Department without coordination or leadership.

—Auditors and investigators reported to officials responsible for the programs under review.

—Instances were found where investigators were prohibited from pursuing certain cases.

—There was an absence of meaningful data on the extent of the problem.

—Efforts to control fraud and abuse were unfocused, inconsistent, and intermittent.

Public Law 94-505 was enacted to remedy the rampant abuse afflicting the programs. It provided authority for the consolidation of the Department's fraud prevention activities under the direction of the Inspector General; authorized the addition of resources targeted at controlling fraud, waste, and abuse; and established strict reporting requirements to keep Congress informed of the activities of the Office.

In April 1981, the committee initiated a comprehensive review of the performance of the Office of Inspector General. A staff report released at the December 9 hearing concluded many of the problems identified by Congress in 1975 continued through 1980:

—There are more than 40 divisions within the Department directed at controlling fraud, waste, and abuse.

—Less than 10 percent of these resources are under the control of the Inspector General.

—There is an absence of affirmative programs to look for possible fraud and abuse.

—There has been a failure to target resources available within the Department based on programs at greatest risk.

—There are serious jurisdictional disputes within the Department resulting from the failure to consolidate the Department's fraud and abuse control activities under the Inspector General's leadership.

—In 1980, the Office of Inspector General referred a total of 41 cases involving medicare fraud to the Department of Justice for prosecution. Five of the 41 cases resulted in convictions; 31 of the 41 cases were declined.

At the December 9, 1981, hearing representatives of the administration committed to a reexamination of the Department's fraud prevention and control activities. The current Inspector General, Richard Kusserow, appointed in June of 1981, acknowledged there were "shortcomings in the way we have been approaching our job."

4. MENTAL HEALTH AND THE ELDERLY

Most Americans over 65 years of age are well-functioning individuals with little or no evidence of mental disorders. A significant minority, however, are a high risk to develop psychiatric symptoms or illness.

Though comprising but 11 percent of the population, the elderly contribute to over 20 percent of the Nation's suicides.

Psychoses increase after 65, and even more after 75.

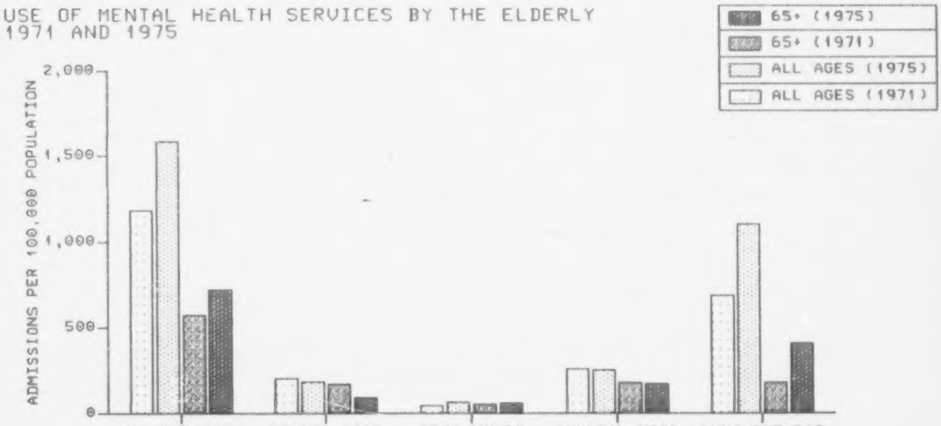
Organic brain disorders in severe form affect over 1 million elderly, and appear in less severe forms in an additional 2 million.

15 to 25 percent of older persons demonstrate significant symptoms of mental illness.

Despite an increased risk for mental disorder, the elderly have been consistently underserved by both the private and public health care sectors. Only 4 percent of community mental health center patients are elderly, and private practitioners and clinics provide but 2 percent of their services to the elderly.

As the following chart from "The Need for Long-Term Care," a chartbook of the Federal Council on Aging, indicates, the elderly use mental health services at about half the rate of the general population—7 versus 16 admissions per 1,000.

CHART 13



This data is particularly disconcerting because many of the mental disorders of the elderly are treatable and reversible. According to the President's Commission on Mental Health and other past studies, as many as 25 percent of those individuals determined to be "senile" actually have treatable, reversible conditions. Yet barriers to such treatment continue to exist.

These barriers are a result of a combination of factors: (1) Reimbursement structures under Federal health care programs; (2) the fragmented, disorganized system of health and social services available to the elderly; (3) the low number of mental health professionals who are interested and trained to provide care to the elderly; (4) continued ageism on the part of mental health and health professionals and the elderly themselves; (5) the fear and stigma the elderly, in particular, attach to mental illness; and (6) fear of the cost of treating the mentally ill in general.

Yet, a reversal in these barriers may be beginning; professional awareness is growing. The American Psychiatric Association has placed a number of questions on the elderly on the psychiatric boards. The Group for the Advancement of Psychiatry's Committee on Geriatrics has developed an initial curriculum on mental health and the elderly. The American Psychological Association was funded by the National Institute of Mental Health (NIMH) this past year to develop curriculum for the Clinical Psychology of Age, and AoA has supported a major curriculum development program by the Council of Social Work Education.

Discussed in more detail in the previous section, Federal funding for clinical training in mental health was severely reduced in the 1981 budget. This may impede the progress gained up to this point on attitudes on mental health treatment for the elderly.

A. REIMBURSEMENT POLICIES

Medicare part A limits lifetime inpatient psychiatric coverage to 190 days. Part B limits annual outpatient coverage to $250 per year (50 percent copayment of $500). Medicaid coverage is generally as low or lower and varies from State to State. Yet, studies have shown the potential cost effectiveness of mental health services.

A longitudinal study in Texas demonstrated that access to needed treatment for mental illness halved the mean length of hospital stay of over-65 patients.

Group Health Association of Washington demonstrated that patients treated by mental health providers reduced physician use by 30.7 percent and laboratory and X-ray services by 29.8 percent.[16]

In the past Congress, several measures were introduced to expand coverage for mental health services. Under present budgetary restrictions, no such expansion is likely. However, with the expanding elderly population, the need for mental health services for the elderly will only grow. Nowhere is that need more obvious than among the institutional elderly.

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[16] Source: American Psychiatric Association.

B. LACK OF MENTAL HEALTH SERVICES IN NURSING HOMES

Surveys of patients living in nursing homes across the country have shown that one-half to one-third of these patients suffer from significant degrees of mental impairment. In the last 20 years, the number of elderly persons living in State mental hospitals has declined by one-half. Of those who have been discharged, nearly one-half moved to other institutions, predominantly nursing homes. In addition, the need for protective long-term care has been shown to correlate with the incidence of the age-related mental impairment widely known as "senility." Yet, fewer than 1 percent of all patients living in nursing homes receive psychiatric assessment and treatment.

Instead, several large surveys of nursing homes have found that antipsychotic medications are prescribed for at least half the residents, even though no diagnosis justifying such prescriptions is made in the majority of cases. Sedatives appear the class of drugs most commonly prescribed for nursing home residents, frequently for long periods, although their therapeutic use declines after a few weeks of regular use. According to the American Psychiatric Association, these medications only mask symptoms, and avoid the need for therapy which may be beneficial in many cases. In fact, psychiatrists have frequently found that stopping sedatives benefits the patient at least as often as starting them.

Although Federal nursing home regulations specify that appropriate services must be available to patients, mental health has not been addressed. Staffs are frequently untrained to deal with the mentally ill, and no public funds are available for professional consultation or staff training. State and local regulations have also not yet reflected the demonstrated need for psychiatric services as a regular feature of nursing home programs. And, nursing home regulations which prohibit any certified nursing home from having over 50 percent of the population with a primary diagnosis of mental illness often preclude appropriate diagnosis and care.

5. Geriatric Medicine: Training and Research

Robert N. Butler, M.D., Director, National Institute on Aging, testifying before the Senate Special Committee on Aging, at Grand Forks, N. Dak., November 14, 1981, commented:

> Older people themselves want improved health care, demanding an end to the short shrift they have received from the medical community. The NIA has received many letters and phone calls from older people and their families concerning inadequate medical care. In response to numerous requests for the names of qualified physicians skilled in the treatment of elderly patients, we have had to reply that, at present, there are very few physicians with experience in geriatrics—and that these individuals are largely self-taught.

There is a great need to adequately train the future geriatric health providers in our Nation about the unique health and social needs of older Americans. Currently, there are substantial shortages of physicians, nurses, and other health professionals in this area unless educational and training efforts are increased. Since the mid-1970's, there has been a growth in the amount of geriatrics integrated into undergraduate medical education. However, there is a long way to go. While 86 geriatric faculty fellowships are offered each year, it is estimated that anywhere from 900 to 1,500 geriatric faculty members are needed to adequately teach geriatrics in our medical schools. In the graduate medical education level, very few geriatric programs (a total of 44) existed in comparison with the large number of residencies in internal medicine, family practice, and psychiatry (approximately 1,062 residency programs in 1980). Since 40 percent of practicing physicians in 1990 will have graduated from medical school after 1979, according to the American Medical Association, immediate action may be able to remedy the geriatric manpower shortage. Unfortunately, the fiscal crises have affected several important geriatric curriculum and training efforts. Therefore, recent reports of increasing attention directed at geriatric training should not lead anyone to believe that enough has been accomplished. The evidence indicates that there is still considerable need to improve educational efforts in all the health professions.

A. SHORTAGE OF GERIATRIC SPECIALISTS PROJECTED IN 1981

A substantial shortage of health providers trained in the care of the elderly is currently being projected. The Rand Corp. estimated that between 34,000 to 53,000 geriatric trained physicians and between 2,000 to 28,000 allied health professionals will be required by 2010 to meet the health needs of older Americans.

The Rand estimates assumed that: (1) A cadre of specially trained geriatricians, who will be needed to teach the subject in medical school, will also provide primary care services; (2) that a large number of primary care physicians (i.e., family physicians, general internists) and some specialists will continue to see many elderly patients; and (3) nurse practitioners, physician assistants, and social workers can and will assume an important primary role. The range depends on the degree of reliance on allied health professionals, other than physicians, for primary care.

NUMBERS OF PERSONNEL NEEDED IN THE YEAR 2010 TO PROVIDE CARE FOR THOSE 65 YR AND OLDER AT CURRENT UTILIZATION LEVELS ASSUMING THE GERIATRICIAN IN A PRIMARY CARE ROLE (RAND, 1981)

Type of provider	Amount of delegation		
	Minimal	Moderate	Maximal
Geriatric specialist	23, 452	18, 205	13, 329
Medical subspecialist	8, 330	8, 330	8, 330
Primary care physician	21, 527	17, 026	12, 739
Nurse practitioner/physician assistant	1, 182	12, 169	20, 398
Social workers	788	3, 491	7, 882

Today, primary care physicians, with little specific training in geriatric medicine, account for the bulk of health care of older Americans. In 1978, a national study of physicians, conducted by the University of Southern California's Division of Research in Medical

Education, estimated that family physicians, general practitioners and internists provide 86 percent of the geriatric care. Specialists, mostly cardiologists and dermatologists, provide the remaining 14 percent. However, very few of them have specific training in the care of the elderly. At present, only about 600 physicians in the United States describe themselves as having particular expertise in the field.

Many of the different nursing professionals, including registered nurses, licensed practical nurses, community health nurses and nurse administrators, work primarily with the over-65 population. The 1977 national sample survey of registered nurses reported that 8.1 percent work in nursing homes and 61.4 percent in hospitals in which the elderly comprised a large percentage of the patient population. However, due to the national nursing shortage, qualified geriatric nurses are in short supply. The 1977 national nursing home survey revealed that only 11 percent of all nursing home employees are registered nurses. In an average nursing home, there are only 1.5 licensed health care providers—registered nurses and licensed practical nurses—for every 100 residents.

Many other allied health professionals are also needed to meet the health needs of older Americans. A 1977 American Occupational Therapy Association survey revealed that 12 percent of occupational therapists and 28 percent of certified occupational therapy assistants usually work with the elderly. Among physical therapists, 22 percent saw persons over 65 most often. Finally, dentists, pharmacists and health educators also have substantial contact with senior citizens.

B. GERIATRIC EDUCATION AND TRAINING

(*i*) *Physician Training*

In November 1981, the Senate Special Committee on Aging received testimony on geriatric medicine at a field hearing chaired by Senator Quentin Burdick in Grand Forks, N. Dak. Testifying on physician training in geriatric medicine, Henry Janssen, M.D. said:

> As little as 5 years ago, most of us received just a very brief smattering of geriatrics in our medical curriculum. There obviously has to be a major revamping of the medical school curriculums where an active department of geriatrics has time enough to educate students regarding problems and care of the elderly.

Schools of Medicine have begun to respond to the need to better educate and train physicians in the health care needs of the elderly. In 1976, very few medical schools had any required undergraduate programs in geriatrics and only 15 of 120 schools had any separate educational programs in geriatrics of any kind. By 1979, however, 81 schools reported that they were offering or developing such programs. Efforts to integrate geriatrics into physician training focus on three levels: undergraduate medical education (i.e, the 4 years of medical school); graduate medical education (i.e., the 3 to 5 years of residency training); and faculty development.

A 1981 study of geriatric training programs in the United States, conducted by the University of California, Los Angeles, School of Medicine, analyzed the extent to which geriatrics was integrated into the undergraduate, graduate, and faculty levels. They surveyed all 126 medical schools. Results showed that 92 of the 126 programs offer training in geriatrics at one of the three levels. However, only 12 sites reported programs at all three levels.

PROGRAMS IN GERIATRIC MEDICINE TRAINING IDENTIFIED AND SURVEYED, 1979-80

	Medical schools or other institutions with programs	Percentage required	Percentage elective
Undergraduate medical education	76	9	91
Graduate medical education	35	34	56
Geriatric fellowship	34		

Approximately half of all graduate and undergraduate medical education programs were instituted as recently as 1979. Relatively few are required activities. Most of the programs involved both teaching sessions about health problems of older Americans and clinical activities. The clinical activities were conducted in several different training sites, including nursing homes, geriatic clinics, and home care programs. Much of the clinical training occurred through interdisciplinary team teaching. Medical students and residents had most frequent contact with registered nurses and social workers among the other allied health professionals.

In 1981, medical institutions offered 36 fellowship programs which provided 81 positions. As with geriatric training at the undergraduate and graduate medical education levels, the great majority of fellowship programs are of recent origin. Only two existed prior to 1970, and only one more had begun by 1975. The average duration of geriatric medicine fellowships is 2 years. Applicants generally required postgraduate (i.e., residency) training in family practice, internal medicine, psychiatry, or neurology. Funding for these fellowships comes from a variety of sources, including the Veterans Administration (34), hospital supported (15), medical schools (8), and governmental agencies (16).

Testifying at the Senate Special Committee on Aging field hearings in Grand Forks, N. Dak., Dr. Robin Staebler outlined four objectives that should be incorporated in a geriatric medical curriculum:

1. To provide formalized medical education in the principles and practices of gerontology and geriatric medicine to medical students.
2. To better prepare family physicians, nurses, allied health professionals and nonmedical professionals to meet the biological, psychological, and psychosocial problems of the aging patient through continuing education.
3. To present the consumer population with education programs addressing those problems most often encountered by the elderly.

4. To establish an information resource center serving extended care, hospital facilities, and social agencies in the State and to increase community awareness of the resource capability of the applied gerontology educational system.

(*ii*) *Nurse Training*

Training programs for nurses have also begun to emphasize geriatrics. According to the Department of Health and Human Services Task Force on Long-Term Care, in 1981, 47 of some 70 federally supported advanced nurse training and nurse practitioner training programs had substantive geriatric content. Twenty-three were specifically targeted to the broader social issues of gerontology. Overall, the task force reported that more than 1,000 nurse practitioners have been prepared in geriatrics and related fields such as family medicine or adult care.

(*iii*) *Promising New Research and Educational Efforts*

During the last 3 years, a number of innovative programs have been created to stimulate the growth in teaching, clinical training, policy and research in the broad area of geriatrics and gerontology.

National Institute on Aging of the National Institutes of Health

To stimulate both faculty development and research in aging, the National Institute on Aging supports the academic research and clinical investigator programs. The academic research program awards a total of 23 fellowships a year to faculty in both medicine and dentistry. Funded in 1981 at $1.5 million, the program is to help faculty with an interest in aging to develop curriculum for their students and to foster increased research in the basic sciences. The clinical investigator program provides awards to young clinical practitioners with an interest in aging. The program, funded for $274,000 in 1981, awards six fellowships for young physicians to gain competence in geriatric research and teaching.

The NIA has also expanded research efforts into the prevention and treatment of senile dementia. In 1982, they will open the combined basic and clinical research program in the neurosciences, studying the reversible causes of dementia.

Nursing homes may soon become the sites for new geriatric training programs. Dr. Robert Butler, Director of the National Institute on Aging, called for a public and private sector partnership to develop teaching nursing homes in affiliation with universities, especially their medical, nursing and social service schools. The NIA, in 1982, will fund several model nursing home programs. Current budget ($1 to $2 million) will allow research sites only, but permitting full training and teaching centers are envisioned. The Robert Wood Johnson Foundation, in conjunction with the American Academy of Nursing, has begun in 1981 to fund a teaching nursing home program. The foundation provides grants of up to $500,000 each to as many as 10 nursing schools to establish clinical affiliations with these long-term care facilities. The nursing schools will be providing clinical services, education, and research activities within the homes and in their surrounding communities.

Geriatric Research, Education, and Clinical Centers of the Veterans Administration

The Veterans Administration's hospital facilities have been sites for innovative geriatric training. Approximately 20,000 medical students rotated through VA facilities in 1980 to 1981 and approximately 7,500 residents were supported. In 1973, the Department of Medicine and Surgery initiated a strategy to focus attention on the aging veteran population, to increase basic knowledge of aging, and to transmit that knowledge to health care providers. This concept has been developed into eight geriatric research, education, and clinical centers (GRECC). Public Law 96–330, passed on August 26, 1980, provided for the enhancement and expansion of the GRECC program. The law requires that the VA medical center provide education and training in geriatrics to residents and affiliated health professions students. This training is accomplished through regular rotations through the GRECC nursing homes, extended care facilities and other geriatric units at the medical center.

Long-Term Care Gerontology Centers of the Administration on Aging and the American Association of Medical Colleges

The American Association of Medical Colleges (AAMC), in an initiative supported by the Administration on Aging (AoA), is involved in a long-term care gerontology centers program (LTCGC). The LTCGC has several purposes, including: (1) To develop and evaluate the most effective long-term care policy for the aged; (2) to educate and train paraprofessional (e.g., nurses aides, homemakers) and health professionals in geriatric care; and (3) to collaborate with community aging resources—home health agencies, nursing homes, community social services—to provide a broad range of health services for the elderly.

In fiscal year 1979, funding was begun for planning and operating the LTCGC's. After the fiscal year 1981 grant awards, nine centers have been established and are operating, at a cost of $250,000 for the first year and $350,000 for each additional year for each center. It is expected that several of these operational centers will be designated as comprehensive LTCGC's. These centers will function to join the interests of the Federal Government and educational institutions to assist States and communities to improve the planning, management, and delivery of health and social services for the chronically ill and functionally impaired elderly. Moreover, because these centers operate within a multidisciplinary framework, partnerships will be developed among academicians, service providers, community planners, and the elderly themselves.

Regional Institutes on Geriatrics and Medical Education of the American Association of Medical Colleges

In addition, the American Association of Medical Colleges has received funding, from the Pew Memorial Fund, for the regional institutes on geriatrics and medical education project. This project will assist our Nation's medical schools to devise methods by which information on the geriatric population and their special needs can be integrated into the entire medical education system. This project will have the following components: The development of learning objectives and performance criteria in the area of geriatrics; four regional conferences, each with plenary session presentations and workshops; publication of these proceedings; and a special forum at the 1982 AAMC annual meeting. The outcome of this project will be to heighten awareness of the medical school faculty and deans of the various aspects of geriatric medicine and to incorporate the basic science, health care, and social aspects of aging into both the undergraduate and graduate medical education programs.

In the first session of the 97th Congress, two bills were introduced that address financial aid for medical school education.

The Health Improvement Act of 1981—S. 1571

This bill, introduced by Senator John Heinz, chairman of the Senate Special Committee on Aging, will permit the Government to enter into loan forgiveness agreements with the physicians specializing in primary care or psychiatry on the condition that they practice in medically underserved areas. There are two objectives to the bill: first, to reverse the trend that high education debts draw physicians into high paying specialties and into establishing their practices in high paying high costs of tuition and fees. Although this bill is not specifically geographical areas; and second, to aid aspiring financially disadvantaged and minority medical students from the astronomically designed for geriatric medical education, it could have a positive effect on treatment of the elderly in medically underserved areas.

S. 1571 has essentially three provisions to accomplish these goals. The bill would, first, provide forgiveness for an increasing percentage of physician's Federal loan and loan guarantee obligations used for medical education for up to 6 years, in exchange for a postgraduate choice to serve in a primary care, psychiatry, or in a medically underserved area. Next, having direct impact on the elderly, the person who opts for this arrangement will be required to treat medicaid and medicare patients and to accept medicare assignment. The last provision will provide a graduated schedule of loan forgiveness for up to 6 years, to act as an incentive to keep the provider in the underserved area for a number of years.

The bill provides for no significant funding for the act's loan forgiveness program until 1985, when the National Health Service Corps physicians complete their obligations while serving in health manpower shortage areas.

Grants for Geriatric Medical Training—S. 37

In January, Senator Quentin Burdick introduced a bill (S. 37) to provide grants under the Public Health Service Act to assist schools of medicine and osteopathy establish and operate special geriatric training programs. Each grant would be available for a period of 5 years. A total of $3 million would be authorized for grants for each of 5 fiscal years.

No action has yet been taken on the bill, however, and the funding for such activities under the Public Health Service Act (section 788) was eliminated in the 1981 budget bill.

6. THE CHALLENGE OF HEALTH PROMOTION AND THE ELDERLY

In 1976, the U.S. Department of Health, Education, and Welfare's "Forward Plan for Health" report concluded that, barring a major medical breakthrough such as a cancer cure, further expansion of the Nation's health care system would produce "only marginal increases in the overall health status of the American people." In the long run, the report stated, "the greatest benefits are likely to accrue from efforts to improve the health habits of all Americans and the environment in which they live and work." The report also concluded that devoting scarce Federal health expenditures to help the elderly eat better, exercise more frequently, prevent home accidents, and to improve the continuum of community social and health services in which the elderly live, may yield more benefits than supporting hospital and nursing home expansion.

In 1979, the Department of Health, Education, and Welfare issued the landmark report, "Healthy People: The Surgeon General's Report on Health Promotion and Disease Prevention." It contains the first comprehensive statement of the Federal perspective on disease prevention and health promotion in the elderly:

> The long-term goal of health promotion and disease prevention for our older people must not only be to achieve further increases in longevity, but also to allow each individual to seek an independent and rewarding life in old age, unlimited by many health problems that are within his or her capacity to control.

The goals, then, of a health promotion strategy for the elderly would be threefold: To delay the onset of preventable disease in healthy adults; to lengthen the period of functional independence in those elderly with chronic disease; and to improve the quality and dignity of one's later life. Increased attention and resources should be devoted both to educating the public about proper health habits and mobilizing a system of community health and social services which promote independent living.

Currently, health care expenditures (i.e., medicare and medicaid) are heavily invested in institutionally based medical care for the very sick elderly. Of the over $2,100 spent every year for each person over 65, 92 percent is consumed by hospitals, nursing homes, and professional (mostly physician) services.

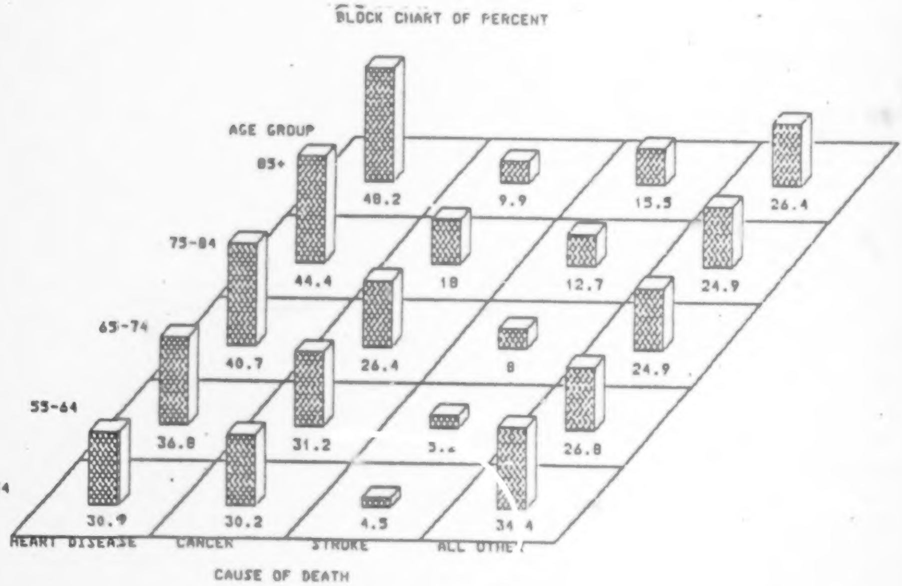
A. THE LINKAGE BETWEEN LIFESTYLE, EDUCATION, AND HEALTH

(i) *Health*

The major causes of premature disease and disability in the elderly are rooted in our lifestyle. Heart attacks, strokes, cancer, and lung diseases which together account for over 75 percent of causes of death, are all potentially preventable. Chart 14 shows, for 1978, the leading causes of death by age group in the United States. Studies indicate that by following a few simple "good health habits" we can delay or prevent these chronic diseases and improve the length and quality of our lives. A series of studies in Alameda County, Calif., showed that a 45-year-old who exercised vigorously and regularly, maintained normal weight, ate breakfast, did not snack between meals, avoided smoking, limited alcohol consumption and slept at least 7 hours a day could expect to live 11 years longer than an individual who followed three or fewer of these habits. A recent survey by the American Association of Retired Persons/National Retired Teachers Association (AARP/NRTA) showed that, of the 10 percent of the over-65 population who reported that their health improved in the past year, over one-third attributed this to individual lifestyle changes, such as exercising and eating better, stopping smoking, and learning to relax.

CHART 14

LEADING CAUSES OF DEATH, BY AGE
1978



SOURCE: National Center for Health Statistics

Testifying on rural health care and the elderly at a Senate Special Committee on Aging hearing, Dr. Henry Janssen, a physician in Linton, N. Dak., said:

> It is the segment of our population, the people who are not actively seeking this sort of service that we should be aiming our efforts at. If the preventive medicine approach is not used, then we are going to have a large proportion of our population that is quite ill and not able to enjoy life and contribute to life to their fullest potential. This will certainly tax our acute health care system beyond its limits.

(*ii*) *Education*

Older Americans have been expressing a desire to receive more information about specific health problems. A 1981 survey by the American Association of Retired Persons (AARP) demonstrated that 37 percent wanted more information about high blood pressure, 34 percent about strokes, 31 about nutrition, and 30 percent about hearing losses. A similar study of the educational needs of older Americans in Raleigh, N.C., revealed that over 80 percent requested knowledge and skilled training to cope with their own health problems. These "self-help" skills included how to prevent accidents, choose healthy inexpensive foods, recognize illness symptoms, and do physical exercises.

Finally, older Americans want to know how to better mobilize the medical and social service systems to help meet their needs. The AARP study demonstrated that 25 percent of the elderly "don't know where to turn to for help," especially those over 80 years of age (30 percent), and with incomes less than $4,000 (38 percent). The survey also revealed that 48 percent are uninformed about their medicare benefits and over 80 percent overestimate its coverage.

Thus, health promotion efforts should empower the elderly with knowledge and skills to manage their health problems more effectively and avoid the pain and suffering of premature disease.

Not only can health education help older Americans improve the quality of their lives, it can also save money. The cost of premature and avoidable disease is staggering. According to a report on the Nation's health by the Department of Health and Human Services, these preventable killers—heart disease, cancer, stroke, violence, and accidents—consumed $110.8 billion in direct and indirect costs, or 46 percent of the total cost of illness ($238.9 billion) in 1975. The potential health and financial payoffs of these educational efforts can be seen in areas such as accident prevention, exercise, drug management, and social supports in mental health.

(*iii*) *Lifestyle*

Accident and Injury Prevention

Accident and injury prevention was cited as the top priority by the 1981 White House Conference on Aging's health promotion consultation group. Their rationale becomes apparent upon examining the facts. Accidents constituted the sixth leading cause of death among persons over 65 in 1979, claiming 23,800 lives. Forty-one percent of fatal accidents among the elderly occurred in the home, according to the National Safety Council, the majority due to falling. Over 4 million nonfatal injuries occur (60 percent in the home) which result in substantial disability. The Surgeon General's report cited that, in one hospital study, it was found that the elderly accounted for 24 percent of all fall injuries treated, but they constituted 63 percent of all hospital admissions for falls and 80 percent of all hospital related days.

Effective accident and injury prevention programs not only focus efforts to increase awareness of the problem, but they also teach the elderly how to avoid them. While part of the problem is due to brittle bones, weakness, impaired sensory perception and other physiological changes accompanying aging, the majority of accidents are exacerbated by poor lighting, steep stairs, waxed and wet floors, slippery and wrinkled throw rugs, absence of bath mats and bathroom safety handles, and other dangers in the immediate physical environment. Model prevention programs such as Group Health Cooperative of Puget Sound, in Seattle, offer free safety inspections, recommendations, and assistance in making safety improvements in the home which reduce the likelihood of accidents.

Exercise

Learning proper exercises and improving fitness among the elderly is another tangible health promotion goal with benefits to both body and mind. A recent report on health promotion in the elderly for the 1981 White House Conference on Aging cited numerous studies supporting the health benefits of exercise in the elderly. Among the findings were that regular exercise reduces the number of fatal heart attacks, reduces insulin need in diabetics, increases the period of deep and sound sleep, increases a sense of accomplishment and satisfaction, and may play a role in the treatment of depression.

Much misinformation about exercise among the elderly precludes their active participation in fitness programs. A survey of the President's Council on Physical Fitness in 1977 indicated that the elderly: (1) Believe their need for exercise diminishes and eventually disappears with age; (2) exaggerate the risks of vigorous exercise; (3) overrate the benefits of light and sporadic exercise; and (4) underrate their own abilities and capacities. Many don't know what constitutes a good fitness program. A 1977 Harris survey suggested that if exercise programs for the elderly were widely available, over two-thirds of all older Americans would increase their physical activity.

With the growing public recognition of the benefits of regular exercise, fitness programs for the elderly are proliferating. The YMCA's, "The Y's way to a healthy back," is currently offered in 700 sites across the United States. In West Virginia, a State-sponsored fitness program called "Preventicare," has been established with the goal of helping older Americans remain healthy and active in the community, avoid premature nursing home placements, and ultimately save the State money.

A recent followup survey of the program found that 82 percent of participants reported feeling improved physically, 77 percent felt better psychologically, 74 percent reported decreased drug use and 52 percent expressed a feeling of increased control over their lives.

Nutrition

Adequate nutrition is held by the National Institutes of Health as the cornerstone of preventive medicine. Many studies have demonstrated that overconsumption of fats, salt, and sugar are contributing factors to obesity, tooth decay, diabetes, and heart disease. Underconsumption, on the other hand, is a significant factor in infant mortality and malnutrition in the elderly.

Currently, little is known about the specific nutritional needs of older Americans. It is known that malnutrition increases dependency, since it is a reversible cause of dementia. Current research is also suggesting a link between inadequate intake of vitamin K, increased calcium loss in bone and the subsequent greater risk for hip fractures in older women. Numerous researchers have discussed problems as "food apathy" among the elderly, especially those living alone.[17] Their findings show narrow diet selections with a heavy concentration on easily prepared foods high in salt and simple carbohydrates. The resultant inadequate consumption of protein, iron, calcium, and certain vitamins aggravate the physiological changes accompanying aging. Finally, factors such as loss of natural teeth, reduced ability to digest food easily, and decreased capacity to see, smell, and taste also effect elderly nutritional intake.

What is clear is that many elderly are malnourished, and it is directly related to inadequate income.[18] A recent Department of HHS task force report on nutrition education and the elderly (Brun and Clancy, 1979) stated that the No. 1 priority is to insure "a level of income that allows the purchase of a nutritionally adequate diet for all Americans." The official poverty index, defined by the Department of Agriculture, fails to provide for a nutritionally adequate diet for the elderly.[19] Not until one reaches 25 percent *above* the poverty line, does the DOA regard income as sufficient for a minimum adequate, permanent diet. Based on this revised level, the number of elderly living in poverty and having an inadequate dietary intake increases from 3.3 to almost 9 million.[20]

There are a number of good model educational efforts. The AoA's national nutrition program provides more than 150 million meals annually to persons 60 and over.[21] The program targets low income, disabled, and socially isolated elderly. Twenty percent of the meals are provided at home. The remaining 80 percent are provided in group meal sites, such as senior centers, churches, and synagogues. Over 185,000 volunteers, many elderly themselves, provide needed social support. Both the group meal sites and the volunteers can be utilized as resources for nutrition education efforts.

Improved Drug Management

Preventing medication related diseases is another area for active educational efforts. Robert Butler, M.D., Director of the NIA, has estimated that 1 million Americans of all ages suffer from drug reactions yearly, resulting in 30,000 deaths a year and at a cost of $2 billion in drug-related treatment. In one study, about 20 percent of patients entering the geriatric service of a general hospital displayed disorders directly attributable to the effects of prescription drugs. In 1978, this committee reported that while the elderly constitute 11 percent of the population, they purchase 25 percent of all prescription drugs, spending 20 percent of their out-of-pocket health expenditures on medication.

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[17] Rae, J. and Burke, A. L. "Counseling the Elderly on Nutrition in a Community Health Care System," Journal of the American Geriatrics Society, 26: 130–135, 1978.

[18] U.S. Department of Commerce. Social Indicators 1976. Washington, D.C.: USGPO, Number 041–001–56–5, 1977.

[19] Butler, Robert, "Nutrition and the Physiology of Aging," speech to Western Hemisphere Nutrition Conference, Aug. 12, 1980, p. 17.

[20] Minkler, M., and Fullarton, J.: "Health Promotion, Health Maintenance and Disease Prevention for the Elderly," background paper for the White House Conference on Aging, Office of Health Information, Health Promotion, Physical Fitness and Sports Medicine, December 1980.

[21] Department of Health, Education, and Welfare, "Working With Older People: A Guide To Practice," Health Care Financing Administration, 1978.

Drug education may enable older Americans to avoid medication related disease and death. Since 80 percent of the elderly have one or more chronic diseases, they receive a variety of powerful drugs. One survey demonstrated that 33 percent of the elderly use between two to four prescription drugs and 5 percent use between five to nine. The possibility for antagonistic drug interactions is great, especially when the use of over-the-counter drugs and alcohol are considered. In addition, the aged show greater side effects to drugs than younger individuals. Finally, difficulty following the many different drug regimen schedules makes compliance difficult.

Drug education efforts for the elderly can provide knowledge on the potential side effects of drugs commonly used, tips on keeping a personal medical history and ways to self-monitor medicine consumption. One such program, the senior pharmacy education project in San Francisco, selects and trains pharmacists to serve as both educator and consultant for both physicians and the elderly. The pharmacies, located in 12 older American neighborhoods in the city, utilize medical profile cards to help the elderly record and monitor their medical problems and medications.

Mental Health

Finally, community education and support services can prevent many of the mental health problems afflicting the elderly. The President's Commission on Mental Health, in 1979, found that mental illness is more prevalent in the elderly than with younger adults. Eighteen to twenty-five percent of older Americans have significant mental health symptoms, depression and psychosis being the most common diagnosis. Some 80 percent of nursing home residents have a serious psychiatric problem, depression being the most common.

However, much of the mental illness among the elderly can be prevented through education and community support. While the stress from illness, death of a spouse, retirement, and relocation are predisposing factors to mental illness, a study of Alameda County, Calif., residents demonstrated that social supports (i.e., friends, family, community agencies) can buffer the impact of stress on mental and physical health.

Effective community based health promotion programs can address those factors that predispose the elderly to mental health problems. Several model social support programs in mental health currently exist. Peer Counseling for Elderly Persons, in Santa Monica, Calif., utilizes trained older Americans to provide support for those experiencing depression, anxiety and other emotional problems which affect their health. Followup surveys have revealed statistically significant reductions in severity of depression, loneliness and anxiety and increased confidence and satisfaction in life among those older Americans who participated. In western Pennsylvania, a community mental health consortium has been developed which offers active outreach efforts with strong preventive functions around nutrition, socialization, transportation, counseling and medical tracking. Out of five neighborhood counseling centers, home visits are made and transportation to day care and medical services are provided.

B. FUTURE DIRECTIONS IN HEALTH PROMOTION FOR THE ELDERLY

The basic problem in health education for the elderly is getting the message across in such a way that will produce real and lasting changes in health behavior. The Task Force on Consumer Health Education, cosponsored by the National Institutes of Health and the American College of Preventive Medicine, identified a number of factors which may be obstacles to successful educational efforts.

As previously stated, educational efforts to improve the health habits of older Americans will only be achieved if the environment in which they live and work is improved. The task force noted that:

> The persistence of health-threatening conditions—poverty, racial discrimination, inadequate housing, urban squalor, violent crime—is largely beyond the power of the individual to control. Currently, the Census Bureau calculates that 25 percent of the over-65 population have incomes less than 125 percent of the poverty level. Approximately one-third of the elderly live in poorly lit, inadequately heated and dilapidated housing. Improvements in lifestyle habits will only come about if the elderly have adequate income, housing and a safe, and supportive community environment.

The task force noted a societywide resistance to major changes in personal lifestyles and an "absence of an organized constituency or consumer report for health education" as two barriers to health education efforts. There are currently over 500,000 self-help and mutual support groups.

There are a number of health education efforts organized within the major aging organizational networks. However, most of the elderly health education efforts have been fragmented and isolated. A coalition of "health promotion" can focus the attention of the public and policy makers on the need to devote more resources to this effort.

Health information must be targeted to those in greatest need. These special subgroups which deserve special attention include elderly women, minority groups, the rural elderly, and the socially isolated. Thus, effective community health education programs must employ outreach efforts to reach those in greatest need of education and socioeconomic support.

Simply developing health education material is insufficient. Resources must be devoted to disseminate the information and provide support and training for communities to develop ongoing and self-sufficient health education programs. A national study conducted for the Blue Cross Association of America showed that only 70 percent of those surveyed knew at least one of the seven cancer warning signs and only 13 percent knew four or more. A survey by the Department of Preventive Medicine at Chicago's Rush-Presbyterian-St. Lukes Medical Center revealed that half of some 600 adults surveyed could not name any risk factors for heart disease. Only 28 percent named cigarette smoking, 21 percent high blood pressure, and 13 percent cholesterol or a high-fat diet. In a recent 10-city study sponsored by the American Hospital Association, 60 percent of those questioned said they were unaware of any health education and information programs.

Despite these challenges to health promotion through community educational efforts, some encouraging trends in national disease and behavior patterns have been demonstrated. The most dramatic is a 21 percent decline in deaths from heart attacks between 1968 and 1976—a reduction probably due partly to decreased cigarette smoking and to lower per capita consumption of animal fats and other high cholesterol foods. Since the Surgeon General's first report on smoking and health was published in 1964, the percentage of men who smoked dropped from 52 percent to 33 percent in 1979. The overall smoking rates for women also have declined, except among teenage girls. The National Institutes of Health national high blood pressure education program, launched in 1972, has also demonstrated encouraging trends. Today, the number of Americans with high blood pressure who are aware of this condition has risen from 50 to 70 percent, and those whose conditions are successfully under control have risen from 16 percent to 30 percent. Finally, the Stanford University heart disease prevention program has demonstrated that a combination of mass-media education and intensive face-to-face instruction can reduce cigarette smoking, cholesterol levels, and blood pressure—the major risk factors for heart attacks and strokes in the elderly—15 to 20 percent.

Thus, there is growing evidence that health promotion for the elderly, and the whole population, is a worthwhile investment. By improving health habits of older Americans and the environment in which they live, it is possible to delay the onset of premature disease, lengthen the period of functional independence in those with chronic disease, and improve the quality of the lives of older Americans.

However, health promotion is not a substitute for a broad, community based long-term care system that meets the health and social needs of older Americans. It is just one aspect of a complete medical and social system for the elderly. We currently have about 30 years to prepare ourselves for the full impact of the post-World War II "baby boom" when approximately one-sixth to one-fifth of the U.S. population will be over 65. Effective tailoring of health promotion efforts to older Americans should not only help us reach the goal of reducing functional dependency in today's older population, but should set the stage for healthier, more autonomous generations of older Americans in the years ahead.

Chapter 14

LONG-TERM CARE

OVERVIEW

Three Federal reports were released in 1981 which highlighted the problems in long-term care and the need for reform. These reports were issued by the Federal Council on Aging, the Under Secretary's Task Force on Long-Term Care of the Department of Health and Human Services (DHHS), and DHHS's Health Care Financing Administration (HCFA). All the reports, as others previously, support the fact that some change in long-term care is both necessary and inevitable.

Long-term care represents about 13.5 percent of all health expenditures, public and private, or some $32 billion out of $237 billion in 1980.[1] Yet, the long-term care system in this country continues to have major problems:

(1) Long-term care services are not well insured, making these services a leading cause of major health care expenditures for older Americans.

(2) Long-term care services are too often provided at an expensive institution, either hospital or nursing home.

(3) Public health care programs for the elderly support mainly acute, medical services despite the fact that the health problems of the elderly are often more chronic in nature, requiring social support and personal care as much as medical care; and

(4) The financing and provision of services are fragmented, with funding flowing through a myriad of health, social services, and income maintenance programs.

However, pressures for reform are mounting. Three things are happening simultaneously: (1) The number of people needing long-term care is increasing rapidly, (2) the costs for providing such care under the current system are growing dramatically, and (3) many States, with Federal support, are seriously experimenting with alternative strategies for the delivery of long-term care services.

A. THE DEMAND FOR CHANGE

1. The Growing Long-Term Care Population

The prevalence of chronic conditions increases with age, and the elderly population is growing.

—The elderly are 4½ times more likely to suffer activity limitation than those under the age of 65. The percentage of elderly who are unable to carry out major activities of daily living (bathing, eating, dressing, toileting) increases from 14.4 percent among 65 to 74 year olds to 32.9 percent for those age 85 and older.[2]

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[1] "Inspector General's Service Delivery Assessment on Long-Term Care," Department of Health and Human Services, unpublished 1981 report.

[2] "Long-Term Care: Background and Future Directions," U.S. Department of Health and Human Services Health Care Financing Administration, HCFA 81-20047, page 5 (hereinafter HCFA 81-20047).

—17 percent of the total over-65 population are unable to carry out major activities. This population accounts for nearly one-half of hospital days used by the elderly and 30 percent of physician visits.[3]

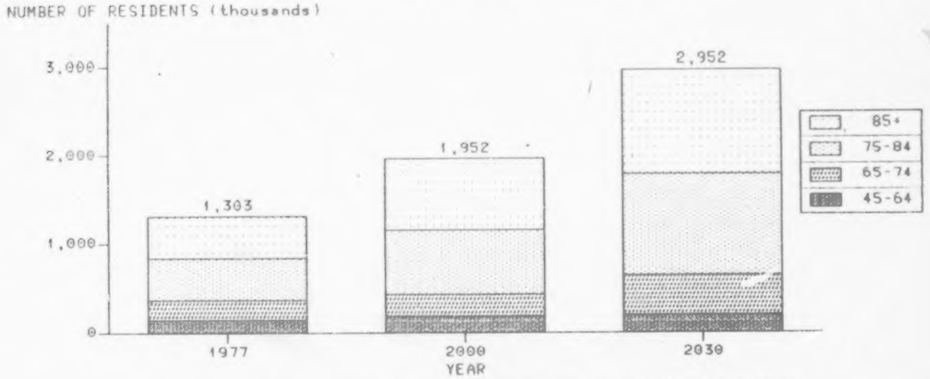
—90 percent of the people in nursing homes are over 65. The percentage of the total elderly population residing in nursing homes increases dramaticaly with age, from about 1.4 percent for those in the 65 to 74 age group to more than 20 percent for those age 85 and over.[4]

—Between 1980 and 2030, whereas the total population is expected to grow by 40 percent, the elderly population will more than double. And, the population over 85, precisely the group most likely to need long-term care and most at risk for institutionalization, will almost triple.[5]

Barring major scientific breakthroughs, this will place substantial demand on our present system of long-term care. Only assuming current utilization rates, the number of nursing home residents will increase 54 percent over the next 20 years, and 132 percent (from 1.8 to almost 3 million) by 2030.

CHART 1

NURSING HOME UTILIZATION BY AGE GROUP
PROJECTIONS OF CURRENT TRENDS
1977-2030



Source: U.S. Department of Health and Human Services, Health Care Financing Administration, Long-Term Care: Background and Future Directions, HCFA 81-20047, p.13

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[3] "Working Papers on Long-Term Care," prepared for the 1980 DHHS Under Secretary's Task Force on Long-Term Care, October 1981, page 37.

[4] HCFA 81-20047, page 7.

[5] HCFA 81-20047, page 1.

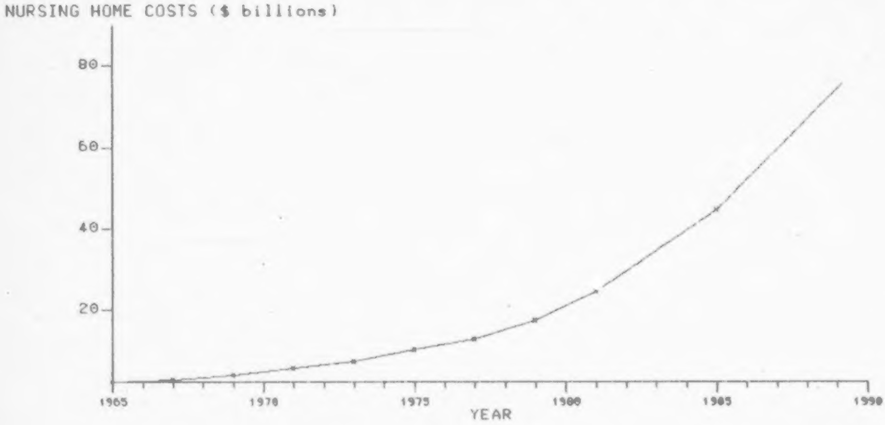
2. Escalating Costs

The inflation in institutional health care costs is nearly double that of the rest of the economy. According to the Council on Social Welfare, some 20,185 nursing care institutions with 1,407,000 beds are directly involved in providing care, along with an estimated 25 percent of acute hospital care devoted to the acute episodes of illness encountered by those with chronic disability.[6]

- —Hospital costs increased at an annual rate of 16.3 percent in 1981.[7]
- —Reimbursement for home health services covered under medicare have increased fivefold from 1974 to 1980, to $735 million.[8]
- —Costs for long-term care doubled from 1975 to 1980 and will more than double between 1980 and 1985 if existing trends continue.[9]
- —Total nursing home expenditures, from all public and private sources, grew from $1.3 billion in 1965 to $7.3 billion in 1973 to an estimated $24.2 billion in 1981.[10]
- —By 1990, nursing home costs are estimated to reach $76 billion if present policies and programs continue.

CHART 2

NURSING HOME EXPENDITURES
1965-1990



Source: Freeland, M.S. and Schendler, C.E., "National Health Expenditures: Short-Term Outlook and Long-Term Projections", Health Care Financing Review / Winter 1981

The Congressional Budget Office (CBO) has estimated that Federal expenditures for nursing homes and home care services considered as substitutes for nursing home care, totaled over $8.6 billion in fiscal year 1980. However, nursing home care represented the largest component of Federal expenditures—70 percent of the estimated $8.6 billion. This disproportionate level of expenditures for institutional care with their increasing costs, coupled with increases of nursing home residents will have dramatic effects on future public and private long-term care financing. It is already presenting particularly serious problems for

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[6] "Long-Term Care, in Search of Solutions," National Conference on Social Welfare, page 10.

[7] Health Care Financing Administration, unpublished data, 1982.

[8] "The Inspector General's Service Delivery Assessment Report on Medicine's Home Health Program," unpublished report, 1981.

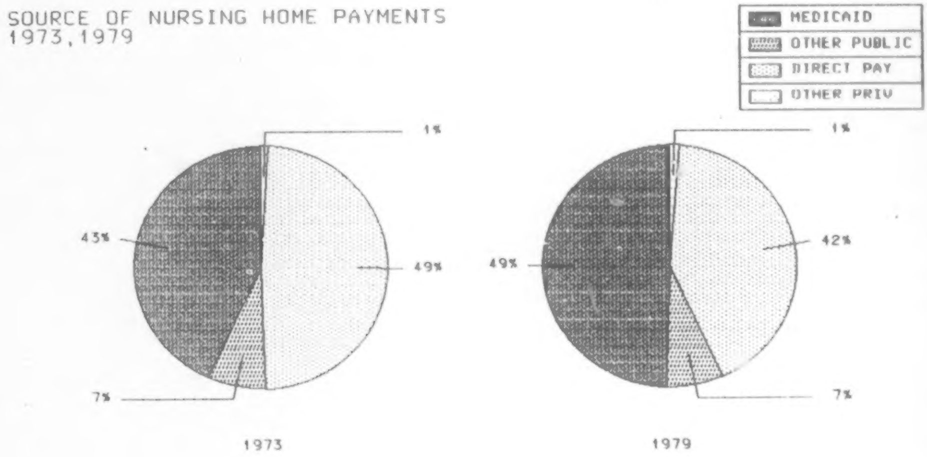
[9] "Long-Term Care, in Search of Solutions," page 15.

[10] "Long-Term Care, in Search of Solutions," page 15.

Federal and State governments, which now pay over half the cost of institutional care, as well as the elderly and their families who now pay approximately 42.5 percent of the cost of nursing home care out-of-pocket.

CHART 3

SOURCE OF NURSING HOME PAYMENTS 1973,1979



Source: U.S. Department of Health and Human Services, Health Care Financing Administration, Long-Term Care: Background and Future Directions, HCFA 81-20047, p.16

At an average annual cost of $14,600 [11] for a skilled nursing care facility in 1980, this can easily represent a catastrophic health care cost for many older Americans. The DHHS Under Secretary's Task Force on Long-Term Care reports that, while the majority of nursing home patients initially use private funds since medicare and private insurance contribute little to nursing home costs, a substantial portion convert to public sources of payment (medicaid) after exhausting personal resources during the first year. Medicaid's share of nursing home payments has increased since 1973. Rising costs may cause this share to increase further and divert resources for reform.

In 1981, Federal Government responses to rapidly rising long-term care costs were directed in part toward reduction in the Federal share of these costs under medicaid (described previously) and a reduction in the reimbursement limits of medicare home health benefits (discussed later). These, combined with reductions in support for social service programs, such as title XX and the Older Americans Act, may place a further strain on the long-term care system. These funding reductions come at a time when there is general agreement that our present public programs are ill-suited to the needs of the long-term care population.

3. Profile of the Long-Term Care Population

In addition to the medical care needs of the chronically ill, a key factor in their ability to remain in the community or be institutionalized is the level of need for and availability of assistance with activities of daily living. According to the DHHS Secretary's Task Force on long-term care, 95 percent of all nursing home residents need help with these activities.

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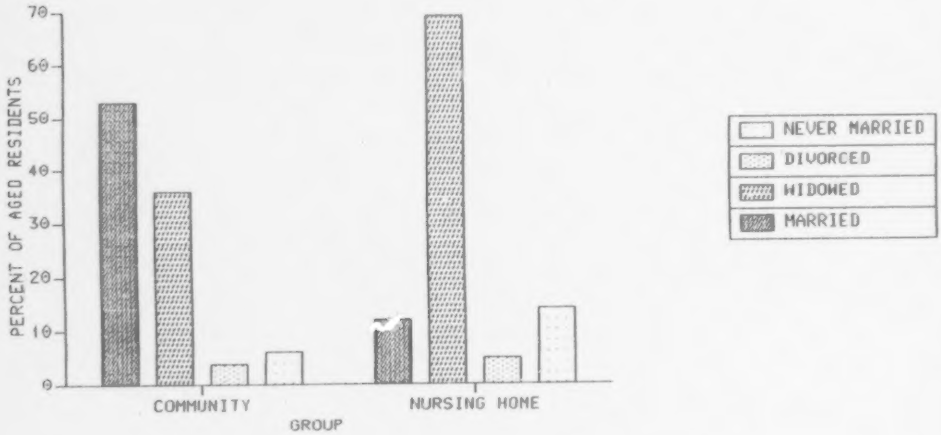
[11] Source, American Association of Homes for the Aging.

Functional disability alone, however, does not determine the need for institutional care since for every person residing in a nursing home, as many as two or three persons who live in the community require an equivalent amount of care.[12] The availability of a spouse, family, and friends seems to be the distinguishing factor.[13]

Over 70 percent of nursing home residents are female. While the larger percent of female residents is partly due to the fact that women live longer and thus are likely to have more functional disabilities, HCFA found that the difference in use rates between the married and unmarried far exceeded the differences in men and women. When nursing home utilization rates are broken down by age and marital status, it appears that women use more nursing home care than men because they are more likely to become widowed.[14] (Seventy percent of the women 75 and older are widows.)

CHART 4

COMMUNITY AND NURSING HOME RESIDENTS AGED 65 AND OLDER
BY MARITAL STATUS
1977



Source: the 1981 White House Conference on Aging, Chartbook on Aging in America, p. 109

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[12] However, according to the DHHS Under Secretary's Task Force on Long-Term Care, those over 75 years of age and needing help with all activities of daily living are three times as likely to live in nursing homes as in the community.

[13] HCFA 81-20047, pages 9-14.

[14] HCFA 81-20047, pages 8-9.

The importance of the family in providing support services to the "at-risk" elderly is demonstrated by the following statistics. Over one-half of all persons 65 and older are married and living with a spouse, while only 12 percent of the nursing home population is still married. In addition, while four out of five older persons have at least one surviving adult child, almost one-half of the institutionalized elderly are childless.[15]

4. TRENDS IN FAMILY CARE

Our long-term care system has relied on families. It is generally estimated that families provide 70 to 80 percent of the long-term care services in this country. Contrary to a common belief that many elderly persons do not have frequent contact with their children, the Federal Council on Aging reports that a recent nationwide survey indicates that most older people live relatively close to at least one of their children and that contacts with children are quite frequent. The survey shows that about four-fifths of elderly persons have one or more surviving children. Nearly three-fourths of those with children lived within 30 minutes travel time of a child, including 18 percent who lived in the same household. About three-fourths of elderly persons with surviving children saw one or more of their children within the week prior to the survey day, and only 11 percent had not seen a child in the previous month.[16]

However, there are trends which may lessen families and friends ability to continue assuming such a large role in long-term care for the elderly.

(1) There has been a significant change in the number of persons living longer with more chronic disabilities, particularly women, in just the last two decades.

(2) Greater numbers of this group are without a spouse. Since 1950, the disparity between elderly widows and widowers grew from a ratio of two to one to more than four to one in 1979, a direct relation to the widening differential in life expectancy of men and women.[17]

With these phenomena, families may need to provide heavier care for a longer period of time. Studies show that, while family care predominates after initial debilitating episodes, it begins to decline with additional episodes. A New York study showed that family stress increased with prolonged care of a chronically debilitated elderly relative. This factor contributed heavily to a decision to place a relative in a nursing home, even though it still may be seen as a very difficult and undesirable choice.[18]

(3) In addition to the longer periods of care required, the "children" who are expected to be care givers may themselves be nearing or at retirement. They may have fewer resources since they too may be on a fixed income.

(4) After 2010, the elderly's frequency of contact with children may decline as the baby-boom generation itself begins to reach age 65.

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[15] HCFA 81–20047 (Shanas 1976), page 10.

[16] "The Need for Long-Term Care, Information and Issues, a Chartbook of the Federal Council on Aging," Department of Health and Human Services, the Federal Council on Aging (Shanas, 1976), page 68.

[17] "White House Conference on Aging Chartbook," page 14.

[18] Brody, Elaine M., "Women's Changing Roles, the Aging Family and Long-Term Care of Older People," National Journal, 10:27:79, page 1830.

This generation, now experiencing the lowest fertility rates in the Nation's history, will have fewer children on which to rely.[19]

(5) Changing roles in family structure, with more divorces and working women may also eventually alter the family's ability to provide care, since women are almost always the primary care givers.

Even though there is a large documented need of the chronically ill for personal care and home care services, Federal resources to support these services are comparatively small. Total Federal expenditures for nursing home care were over 10 times the expenditures for home health in 1978, with even less support for personal care services.[20] Critics of current Federal policy also point to aspects of Federal programs which penalize rather than support family caregiving. For example, SSI benefits are reduced by one-third if the older person lives with his or her family. Yet, studies have shown that many could avoid unnecessary nursing home placement if family support services were available.

The Congressional Budget Office (CBO) estimated in 1977 that between 10 to 40 percent of the institutionalized elderly could be cared for in the community. The DHHS Task Force on Long-Term Care cited a more recent study that indicates the actual number may be under 10 percent. Both studies are hampered, however, by the fact that evaluation did not take place at the point of entry into the nursing home, but rather at a later date after the person's physical and mental status may have deteriorated. Recent State studies confirm CBO estimates, citing levels of inappropriate nursing home placement between 20 and 40 percent.

5. FEDERAL PROGRAMS THAT CURRENTLY SUPPORT LONG-TERM CARE

Programs which support the majority of long-term care services are funded by medicare, medicaid, title XX of the Social Security Act, and title III of the Older Americans Act. There are portions of other programs which may support long-term care such as congregate housing, discussed in another chapter; but their level of support is very small. Efforts to pool the resources of these programs into a coordinated long-term care system for the chronically ill who have multiple service needs have been hampered by the varying eligibility requirements and program guidelines, difficulties in accessibility, and the heavy bias toward institutionalization.

Estimates of medicare and medicaid support for long-term care range from 75 percent of all public long-term care funding in the table below to a 1980 HCFA estimate of 90 percent.[21] According to the table below, 77 percent of all public funding for nursing home and community-based services is through medicaid. Medicaid is the predominate source of public funding for nursing homes. Estimates of medicaid's share range from 87 percent of all public funds for nursing homes, to 93 percent in the table below.[22] Nursing home services account for about 40 percent of total State/Federal medicaid costs.

By contrast, only about 1 percent of medicaid dollars and 2 percent of medicare's total expenditures are directed toward home health services.[23] The major public support for long-term care is clearly directed toward nursing home care through medicaid, and medicaid is not available until patients "impoverish" themselves.

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[19] "The Need for Long-Term Care, Information and Issues, a Chartbook of the Federal Council on the Aging," page 68.

[20] "Working Papers on Long-Term Care," page 71.

[21] HCFA 81-20047, page 1.

[22] HCFA 81-20047, page 16.

FORMAL LONG-TERM CARE EXPENDITURES IN HOSPITAL CARE, NURSING HOME CARE, AND COMMUNITY-BASED CARE BY SOURCE OF FUNDS, 1980

[In millions]

Source	Hospital	Nursing home	Community-based	Total
Medicare	$1,568	$455	$1,042	
Federal medicaid	419	5,694	85	
Federal title XX			809	
AOA			724	
Veterans' Administration	1,562	359	723	
Other Federal	104	21	135	
State medicaid	354	4,788	73	
State title XX			420	
Other State	198		211	
Local government			17	
Insurance	902	129	740	
Business/Philanthropy	29	129	162	
Consumers	209	8,869	1,377	
Total	5,345	20,444	6,518	$32,307
Federal	3,653	6,529	3,518	13,700
State/local	552	4,788	721	6,061
Private	1,140	9,127	2,279	12,546

Source: Department of Health and Human Services, Inspector General's Service Delivery Assessment on Long-Term Care, unpublished report.

A. MEDICARE (TITLE XVIII)

Although medicare does provide benefits for home health, the intent of the program is to provide skilled services to the elderly in their place of residence rather than health-related social support services for the chronically ill. Services which assist individuals in activities of daily living (i.e., homemaker services, personal care services) are specifically excluded from coverage unless the patient requires some form of skilled care (nursing care, physical or speech therapy) at the same time.

Because medicare home health services are directed toward homebound individuals in an acute situation calling for temporary care, they do not actually serve as a continuing source of long-term care for the chronically ill elderly.

B. MEDICAID (TITLE XIX)

In contrast to medicare, medicaid benefits can provide a more complete range of services. Medicaid's coverage for noninstitutional care includes home-health care and, at State option, personal care and adult day services. States are required to provide home-health services to medicaid eligible persons who are entitled to benefits in a skilled nursing facility. States may also include a personal care provision under their State medicaid plan which would allow for health-related support services when prescribed by a physician and supervised by a registered nurse. A total of 14 States and the District of Columbia have adopted this provision. Adult day health services which include medical and social care as well as transportation are also permissible.

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[23] HCFA 81-20047, pages 19-20.

Although medicaid home health was intended to provide an alternative to institutional care, many States have imposed restrictions that tend to limit the use of medicaid for in-home and community care. At least 15 States have adopted the medicare requirement for skilled services. Many States have also imposed limits upon the comprehensiveness of service. In addition, many States have established much higher levels of income eligibility for community-based services than institutional services. In States with medically needy programs, or "spend down" provisions of medicaid, individuals may qualify for medicaid in nursing homes because the cost of their basic living needs in the nursing home is considered a "medical" expense and depletes their income more rapidly. In 15 States without medically needy programs, some individuals may receive medicaid benefits in nursing homes but not in the community because income levels for medicaid eligibility for outpatient care are more restrictive. Federal law was substantially changed during 1981 in response to many of these problems. (See Federal legislation, section 2176, 1981 Omnibus Budget Reconciliation Act.)

C. SOCIAL SUPPORT SERVICES (TITLE XX)

Noninstitutional social support services such as homemaker/chore and adult day care have also been available through the title XX grant-in-aid program. Services covered vary from State to State. The program is intended to support a whole range of services for a variety of client groups, therefore, program support for long-term care services for the chronically ill also varies significantly. The provision of title XX services is now limited by the close-ended Federal funding. In fiscal year 1981, the program operated at a Federal funding ceiling of $2.9 billion. The Omnibus Budget Reconciliation Act of 1981 changed the title XX grant-in-aid program to a social service block grant to the States. The act also reduced title XX's fiscal year 1982 expenditure ceiling to $2.4 billion. With this decrease in funds, title XX's ability to serve as a future source of support for socially oriented long-term care services will possibly be significantly eroded.

D. TITLE III OF THE OLDER AMERICANS ACT

A variety of home- and community-based services are also available under title III of the Older Americans Act. Under this program formula grants are made to State agencies on aging for planning and coordination of, and advocacy for, programs for older persons. Under 1981 amendments to the act, State agencies are required to spend an "adequate portion" of its title III funds on in-home (homemaker, home health aide, visiting, telephone reassurance, and chore services), access (transportation and outreach), and legal services. Prior law required that at least 50 percent of funds be expanded for these services. Although home care is one of the major service components under title III, the total number served in fiscal year 1980 was only approximately 700,000 persons. The total title III fiscal year 1981 appropriation for social services, and congregate and home-delivered nutrition services was almost $700 million.

Title III does enlist State aging personnel into long-term care advocacy by requiring that a State agency establish a long-term care ombudsman program to investigate the complaints of institutional residents and monitor Federal, State, and local laws regarding long-term care facilities.

B. FEDERAL AND STATE ACTIONS IN LONG-TERM CARE REFORM

Most recent Federal efforts in long-term care reform have been primarily focused on research and demonstration projects testing community-based and home care services as alternatives to institutionalization. The impetus for such demonstrations has been both the stated preference of the elderly and chronically ill for noninstitutional forms of care and the rising concern over health care costs.

1. An Evaluation of Past Demonstrations

HCFA and the Administration on Aging (AoA) have supported a variety of demonstration projects which have attempted to address inappropriate nursing home placement, fragmentation in the financing and provision of services, and the development of new service modalities. The evaluation results of these projects have been tentative and not always consistent. Some would indicate that home care costs are less than, or at least comparable to the costs of an equivalent level of nursing home care; that nursing home utilization rates can be lessened or controlled; and (in fewer cases) that numbers of hospital days can be lessened through use of community care. Basically, there is presently no known measure that can accurately predict who will be institutionalized. Without such ability to target services, community-based services will, to a certain degree, be add-on costs rather than only substitutions for nursing home care. Though community-based services may delay institutionalization, current evidence that they will prevent institutionalization is inconclusive.

In a review of a number of community-based long-term care initiatives, the General Accounting Office (GAO) indicated that certain program elements demonstrated in the projects appear to be essential to improving the current system, for example, mechanisms to control nursing home entry, multidimensional needs assessment procedures (medical and social), coordination responsibilities vested in one community agency, and a unified funding source.

A 1981 Urban Institute review of recent long-term care program evaluations found that some community-based programs have increased overall long-term care costs because they serve many more persons than simply those who would otherwise be in nursing homes. The Urban Institute criticized some of the new data, saying that reports of savings were sometimes overstated because data did not always include the total costs of maintaining an individual in the community. The review also noted that there is some evidence that community-based services do substitute for nursing home care for at least some of the individuals served. And, where programs are directed toward shortening hospital stays, there is some evidence that hospitalization can be reduced.

The Urban Institute also found that there was significant evidence from a number of the demonstration programs that community-based services improve patient outcomes. Several projects have shown that noninstitutionalized patients live longer and have higher levels of mental functioning, self-maintenance, satisfaction with services and life satisfaction than those in the traditional nursing home settings.

Improvement in targeting of community-based services to those who would otherwise be in institutions or are most at risk for such care is perhaps the most difficult problem facing designers of expanded long-term care programs, but essential if control over the increase in total expenditures is to be maintained. Many of the past demonstration projects found that a process to control client placement (i.e., mandatory preadmission screening for nursing homes) and case management—including assessment, referral, and followup—were essential components to targeting services and controlling costs. One of the major problems that the medicaid-only projects faced in overall cost control was their inability to serve private pay and medicare populations who were at risk for institutionalization. Since this population is likely to exhaust their resources within the first year of institutionalization and transfer to medicaid, they are a significant source of program expenditures.

2. 1981 RESEARCH AND DEMONSTRATION PROJECTS

Many of these projects attempt to address problems uncovered in past projects. First, a major effort has been made by DHHS to involve State governments more substantially in the design of projects in recognition of the fact that State involvement will be necessary for any transition from demonstration to implementation of coordinated systems of long-term care. Second, some projects have been directed at more systemic reform to: (1) Include the medicare population, (2) effect the necessary linkages between the acute and chronic care systems, and (3) to provide limitations on total costs.

A. NATIONAL LONG-TERM CARE CHANNELING DEMONSTRATION PROGRAM

In 1980, 12 States (Florida, Hawaii, Kentucky, Maine, Maryland, Massachusetts, Missouri, New Jersey, New York, Ohio, Pennsylvania, and Texas) were awarded contracts under DHHS's national long-term care channeling demonstration program. The program is based on the "channeling" concept, i.e., that multiple resources and services can be coordinated and implemented at the local level through one organizational entity. The primary components of the program are client assessment and case management, including care planning, arranging for services, and monitoring and reassessment. The goal is to arrange services to fit an individual client's needs. The major policy issue to be addressed is whether channeling is a cost-effective addition to the current delivery system. Another purpose is to improve upon past research designs and to design a system for comparability of data across projects.

DHHS, through HCFA and AoA, funded these projects for a 2-year period in 1980 at a level of $13.55 million. Plans were to fund 2 additional years for each of the 12 State projects in 1981, but reduced HHS research and demonstration budgets resulted in two projects (Missouri and Hawaii) being phased out of the national program. Only 5 of the remaining 10 sites received additional third and fourth year funding in fiscal year 1981. DHHS plans to fund the additional 2 years for the remaining five projects in fiscal year 1982. The Senate Appropriations Committee, through language in the fiscal year 1982 appropriations report, has made clear its intent that DHHS fund these projects.

In the past year, DHHS has developed plans to designate five of these channeling projects as "complex" and five as "basic" models. The "basic" models can perform assessment and case management, but will not be able to alter basic medicaid or medicare eligibility levels. The complex models will have authority to waive some medicare and medicaid service reimbursement restrictions. These projects will be able to prescribe and directly pay for services based on client need, not income eligibility. Limits will be required on noninstitutional costs to hold them to not more than 60 percent of institutional costs. Cost sharing by the client will be allowed. Appropriate targeting of clients will be essential to the project. Since the geographic areas chosen for the projects have high concentrations of functionally disabled and elderly persons, DHHS expects that populations served will tend to be primarily low income, although this is not required.

Additionally, in 1980, 14 States and the District of Columbia were awarded a total of $1.5 million for long-term care systems development grants to help build their ability to plan, coordinate, and manage the allocation of long-term care resources.

B. HOSPITAL-BASED DEMONSTRATION PROJECTS

Preliminary reports from a HCFA-supported demonstration project which became operational on August 1980, at Mount Zion Hospital and Medical Center in San Francisco, support the critical importance of linking the acute and chronic care systems. Nationwide, 38 percent of all hospital beds are occupied by those 65 and older, with some hospitals reporting 60 to 65 percent elderly occupancy rates.[24] While the past focus of Federal demonstration projects has been on nursing home substitution, this project (and others) is demonstrating that even larger savings may be achieved on the hospital side.

The Mount Zion project's target group is not necessarily aimed at persons who would otherwise require skilled nursing facility care, but rather at a slightly healthier, chronically at-risk population. This is the specific population that most heavily uses hospital care. By providing or obtaining appropriate in-home services and case management, early preliminary results show that the project's experimental group of patients, as compared to the control group, has achieved over 50 percent savings in part A medicare alone. The early results also indicate that the demonstration group has been able to maintain levels of functioning, while the control group has declined in activities of daily living, social supports, and environmental satisfaction.

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[24] Source: The American Hospital Association, Office on Aging and Long-Term Care.

The Administration on Aging, recognizing the potential for such savings, supported a conference in June 1981, to encourage hospital-based programs for the elderly. And, in May 1981, the American Hospital Association opened its Office on Aging and Long-Term Care with the purpose of encouraging hospitals to develop programs of care more suited to the multiple, multifaceted, and chronic conditions of the elderly. In a recent survey of 7,000 U.S. hospitals, the office found that 15 percent (690) had some type of geriatric programs. According to the office, recognition that the traditional acute system is inappropriate to the needs of many of the elderly comes from increased numbers of health professionals aware of these needs, as well as hospitals' increased elderly population.

As valuable as these programs may seem, they too will suffer from charges of being only add-on costs without a system which allows for careful targeting and appropriate placement by providing incentives to control costs. HCFA is supporting an additional demonstration project to design a systemwide change that could implement these incentives.

C. SOCIAL HEALTH MAINTENANCE ORGANIZATION

One proposed way to expand long-term care coverage without fear of greatly increased costs is to expand benefits under a fixed budget. Fixed budgets, or capitation, is viewed by some as a mechanism to: (1) Curtail the sharply increasing costs borne by Federal programs for nursing home care, (2) facilitate case management and improved resource allocation in long-term care, and (3) introduce improved management systems and controls among long-term care providers. The fixed budget idea has not enjoyed much support, however, primarily because of: (1) State fears that a Federal cap would create untenable budget constraints in meeting current medicaid obligations, (2) the difficulties of local public management of a system as complex as the network of long-term care service providers, and (3) the concern that problems of inefficiency and lack of access to appropriate services might worsen under State block grants.

However, HCFA began a 3-year demonstration project with Brandeis University in 1980, to try a new variation to the fixed budget approach, the social health maintenance organization. Based on success in controlling costs in acute care delivery with health maintenance organizations, this demonstration will provide acute and long-term care services including home- and community-based care under a capitated system. It is hoped that this project design can offer the best opportunities for economies of scale and incentives to control costs. By placing providers at risk, it will encourage substitution of appropriate lower cost alternatives for all inpatient care, efficient management of the entire gamut of social and health services for the elderly, and provide a model that can deliver services based on individual need rather than income.

The first social health maintenance organization site was designated in August 1981, at the Brooklyn Metropolitan Jewish Geriatric Center. Two additional sites were designated in November and December, the Kaiser Portland Health Plan and the Ebenezer Society in Minneapolis.

3. State Initiatives

Although the Federal Government has taken some actions in long-term care reform, research and demonstration activities, these actions have not yet resulted in broad, systemwide changes. Congress has taken a step forward in recognizing the need to support a continuum of care under the medicaid program with the passage of the section 2176 provisions in the 1981 Budget Reconciliation Act. However, concrete actions directed at long-term care system reform have more often come from the State and local levels. This is partly due to increased State expenditures in long-term care and partly due to a desire to meet the needs of their growing older population.

The Senate Special Committee on Aging, assisted by the Congressional Research Service, recently conducted a survey of State actions in long-term care reform. The committee found that several States were moving forward with reform and support for community- and home-based services despite Federal and State medicaid budgetary limitations.

According to a 1980 GAO report, three-fourths of the States spent 40 percent or more of their total medicaid expenditures (Federal and State) on nursing home care; in 19 States, at least 50 percent of their budget went for these services. Many States have shown increasing concern over the difficulties they have encountered in coordinating the various categorical long-term care programs and a growing need to develop ways to meet the needs of their increasing older population.

A 1981 report, "Alternatives to Institutional Care for the Elderly: An Analysis of State Initiatives," by the George Washington University Intergovernmental Health Policy Project (IHPP) states:

> Concomitantly, many States are finding that a significant portion of elderly persons are admitted to nursing homes for nonmedical reasons. For example:
>
> The State of Utah completed a study and found that approximately 40 percent of the nursing home population was admitted for social rather than medical reasons.
>
> The Virginia State Department of Health found that as many as 25 percent of the medicaid nursing home applicants in Richmond could have been cared for in community settings if such services were available.
>
> A Texas study found that a large portion of the elderly population was being supported in nursing homes when in fact their needs were for social support services.
>
> The State of Arkansas found that between 20 to 30 percent of their nursing home residents were admitted for nonmedical reasons.

The objectives of reducing institutional care costs and diverting potential users to other forms of care has been the impetus behind much of the State effort to alter the long-term care service systems. Nursing home care for the elderly is one of the fastest growing portions of State medicaid budgets. Today, this problem is of particular significance as many States are experiencing severe fiscal strains in their medicaid programs. Despite conflicting evidence about the potential of attaining cost reductions by substitution of various forms of community care for institutional care, some State governments are modifying and/or expanding community-based services. These State efforts have been supported to a significant degree by Federal research and demonstration funds. In addition, Federal waivers of current legislative requirements under the medicare and medicaid programs granted by the Health Care Financing Administration (HCFA) have enabled some States to test innovative ways to provide community-based services. Even though much activity has been sponsored through this Federal support, parallel activities have been initiated by States without the benefit of Federal demonstration funds or waivers of current law.

DESCRIPTIONS OF STATE PROGRAMS

Some States have initiated activities to utilize existing Federal resources to mold the current network of services into one which more effectively impacts on the long-term care population as well as activities which have been significantly supported by Federal demonstration funds or waivers of current service eligibility requirements.

These activities can be basically categorized as:

—*Control of institutional access through screening/assessment mechanisms.* Many projects are oriented toward controlling access to institutional care. To this end, projects have attempted to conduct screening and comprehensive medical and social assessment procedures of those "at risk" of long-term care services in order to evaluate the most effective and least costly care option, given the patient/client's needs. These screening/assessment procedures are generally applied to persons about to enter a long-term care facility and/or others who are referred for community-based care.

—*Reorganizing access to community service.* Some projects have attempted to reorganize access to community service by providing a "single entry" point for clients (i.e., one agency manages client care). This concept has been designed to overcome what many people consider highly problematic in the current system—multiple providers and duplication of service resulting in client confusion as to source of care and unnecessary administrative costs among agencies.

—*Cost control mechanism.* Keeping in mind the goal of diverting clients to potentially less costly community care services, some projects have eliminated the uncertainty of whether community care will exceed institutional costs by preestablishing upper cost limitations for such care. That is, community care may be provided only when such care does not exceed a certain percentage of institutional care costs.

—*Tax incentives for family care.* Notable among these State initiatives are actions by some State legislatures to enact programs offering tax incentives for care of elderly and handicapped members in order to encourage home care (e.g., Utah, Idaho) and to mandate health insurance programs to offer home health care (e.g., Montana; 15 other States now require this as a health option).

These programs may represent partial answers to the issue of restructuring long-term care services.

According to the IHPP, at least 12 States (Arkansas, Connecticut, California, Florida, Georgia, Illinois, Massachusetts, New York, Oregon, Virginia, and Washington) have developed coordinated community-based programs for elderly persons. Most of these programs have been established according to the case management model of service delivery.

The following represent some examples of State actions in long-term care reform. These examples are not an exclusive list since several other States also have developed some type of projects. Rather, they represent many of the State actions taken in 1981.

Arkansas

The Arkansas in-home service program, established in 1978, provides case management and in-home services (including personal care) to elderly medicaid and nonmedicaid eligible clients in an effort to develop a coordinated continuum of health and social services. During 1980, 12,826 clients were served at an average annual cost of $436.41 per client.

In February 1981, a State task force, composed of State agencies primarily responsible for the administration of State funds for long-term care (Department of Social Services, Department of Health, and the Office of Aging), made recommendations for improvements in the Arkansas long-term care system. The task force report indicates that although a variety of long-term care services for the eligible population exists in the State:

> It is clear that a centralized framework should be established to coordinate the range of services and insure that these eligible persons can gain access to the available services. This can be accomplished through a coordinated long-term care needs assessment process.

A key component of the system would be the designation of agencies which are not service provider agencies to perform case management and assessment services for persons in need of home care services.

As called for in the task force report, the revised system would be based upon the State's existing personal care provider network in coordination with agencies providing skilled home health services. Currently, area agencies on aging designated by the office on aging under the Older Americans Act operate a personal care provider network and provide for in-home services for the elderly. Under the task force recommendations the area agencies would phase out their direct in-home service delivery functions and would be designated to conduct all case management and assessment for home health care services. The task force report calls for development of a demonstration program in a limited number of counties with future implementation on a statewide basis. In 1981, the State general assembly enacted Act 380 to establish authority for the demonstration projects. This will include mandatory nursing home preadmission screening.

Colorado

In 1980, the State legislature enacted Senate Bill 38, the "Alternatives to Long-Term Nursing Home Care Act" which authorizes a pilot project to provide home health services to persons over age 65, or who are disabled, and whose gross income does not exceed 300 percent of the current benefit level under the supplemental security income program. The law limits the total number of persons to be served under the program to 360 persons. The program is financed solely with State funds.

In addition, the Colorado Department of Health and Social Services is the recipient of a Department of Health and Human Services grant of $100,282 under the national long-term care channeling demonstration program to develop a statewide long-term care plan by December 1981 to address the issues of appropriate, cost-effective service delivery for the functionally impaired population, including the elderly, developmentally disabled, chronically mentally ill, and the severely handicapped.

Georgia

In 1981, the State of Georgia will expand their alternative health services (AHS) project to cover 60 percent of the State. This project was begun in 1976 by the Georgia Department of Medical Assistance, with a demonstration program approved by HCFA to test the effectiveness of comprehensive, medicaid-funded community-based services as an alternative to nursing home care. The AHS project was built upon a centralized single point of entry for all long-term care services. County offices of the State Department of Family and Childrens Services acted as client intake, assessment, and referral units for persons in need of long-term care. A HCFA-approved waiver of the State's medicaid plan allowed the project to provide services to the eligible population (persons aged 50 and older, residing in a nursing home, or certified for nursing home care) not normally available through medicaid. These services include—adult day rehabilitation, home-delivered services, and alternative living services.

In order to judge whether an eligible client may be served through the AHS project, his/her needs are evaluated against guidelines that quantify the costs of providing project services. A limit is established for monthly community-based services costs which is approximately equal to the monthly cost of the State medicaid intermediate care facility (ICF) program. If a person has service needs greater than those set by the guidelines, the individual is not referred to AHS services unless the projected 6-month costs are likely to decrease to less than the cost of ICF care for the same period.

Maine

On June 29, 1981, the Governor of Maine signed into law L.D. 1620, which will expand home- and community-based long-term care services for elderly and disabled adults. The legislation will be supported by $1.25 million from the State's general fund over a 2-year period.

Specifically, the law requires the Department of Human Services to establish and administer a program of in-home and community support services for adults who are at risk of inappropriate institutional placement, or who have been inappropriately placed in an institution, who have a need for home and community support from public services, family members, and neighbors. The law also calls for the establishment of multidisciplinary assessment teams throughout the State (composed of social service and health personnel, the adult in need, and a family member), to determine client eligibility, develop a plan of service, arrange for services, and conduct periodic client evaluations. The law also establishes a personal care assistance program for persons with severe disabilities. It requires a study of the comparative costs of in-home and community services and services provided in institutional settings.

New York

The State of New York has been active in developing new methods for delivering long-term care for some time, due in part to a serious shortage of nursing home beds and a significant problem of patients "backed-up" in hospitals awaiting nursing home placement. In addition to the Monroe County long-term care program (ACCESS), supported by HCFA and the Administration on Aging, the New York State Legislature established the "nursing home without walls" program in 1978 to provide for a voluntary alternative to institutionalization for medicaid clients who meet medical criteria for entrance into an institution. The aim of the program is to coordinate the provisions of a variety of home care services to the elderly and disabled through a single entry into the service network. In order to participate in the program all persons must be eligible for medicaid, and medically in need of institutional care. The yearly costs of home care services under the program may not exceed 75 percent of the average yearly costs for institutional care under the State medicaid program.

Operating in multiple sites across the State, the program has received approval from HCFA to provide a variety of home-based services not normally allowable under the State's medicaid program including, for example, home maintenance, social day care services, congregate meal services, moving assistance, and respite care.

In addition, the State assembly approved a bill in 1981 authorizing the Commissioner of Social Services, in consultation with the Commissioner of Health, to conduct a demonstration program on respite care. The program will provide temporary relief to families in their daily care of the elderly dependent persons, or assistance to families in crisis situations. The objective is to allow families an opportunity to maintain a normal routine and to deter requests for long-term institutional placement. Respite care assistance would be limited to periods of 24 consecutive hours or longer, but not to exceed 6 weeks in any calendar year for any individual. The bill encourages the use of existing reimbursement sources, such as medicaid, medicare, and other third-party payers; however, the client and family would, when possible, assume the cost of their services.

North Carolina

North Carolina has legislation which directs the Secretary of Human Resources to develop a comprehensive screening program for older persons, focusing on providing them with the least restrictive level of care to meet medical and social needs. The screening process is designed to identify those individuals who could remain at home if an appropriate in-home care program were provided.

Oregon

In 1981, the Oregon State Legislature passed legislation which will consolidate and coordinate the components of their State long-term care programs including those supported under medicaid, title XX, title III of the Older Americans Act and Oregon Project Independence (a program designed to provide alternatives to institutionalization for those citizens not eligible for welfare benefits). Funds will be administered through a single State agency. A nursing home preadmission screening program is also established, with local preadmission screening teams. Local agencies, in many instances area agencies on aging, will provide case management services for the assessment teams and clients to assure access to appropriate levels of care.

This State action is based on a 1978, 3-year demonstration project supported by HCFA and AOA to test the effectiveness of two methods of controlling nursing home utilization and increasing the use of community-based services.

Florida

The following long-term care activities are underway in the State of Florida:

Community care for the elderly (CCE), enacted by the State legislature in 1976 on a pilot basis, was created to develop, expand, and reorganize various community-based services for the functionally impaired elderly. Because of the success of the pilot project, the program was expanded statewide in 1980. Under the program, service provider agencies funded by area agencies on aging support a number of "core" services, including homemaker, health maintenance, respite care, chore, home-delivered meals, adult day care, and medical transportation, to the recipient population. Services are organized under the direction of a single lead agency with case management staff. Funds to support the CCE are appropriated biannually by the State legislature from State general revenues and are allocated to each social services district, starting with a base of $45,000 to each county. In 1980–81, the Florida Legislature increased community care appropriations from $3.4 to $7.2 million. A formula is used to distribute funds based on the number of persons in the district aged 75 and over and number of persons aged 65 and over who live alone or with nonrelatives. A sliding fee scale is used.

In addition, Florida is conducting the medicaid waiver project, approved by the Health Care Financing Administration (HFCA) in 1979, to utilize medicaid funding to establish a model preventive, maintenance, and restorative health care system for medicaid eligible noninstitutionalized, functionally impaired supplemental security income recipients aged 60 and over in five counties. This project consists of three major components: (1) Comprehensive medical assessment; (2) case management system; and (3) provision of six community care services—day treatment services, medical therapeutic services, personal care services, home management services, respite care, and medical transportation.

The State also is the recipient of a Department of Health and Human Services (HHS) award of $932,896 under the national long-term care channeling demonstration project.

Wisconsin

In July 1981, the Wisconsin State Legislature approved assembly bill 66, the "Long-Term Care Community Options Program" (COP), which is designed to target public resources toward elderly and disabled persons who are at greatest risk of entering nursing homes and to insure that assistance is available to individuals in need of long-term care services who wish to remain at home or in other community settings. The bill, essentially drawing on the experience of Wisconsin's HFCA-funded Community Care Organization (CCO) demonstration project, has the following features:

—Every person seeking, or about to be admitted for nursing home care will be required to undergo a comprehensive assessment to determine functional abilities and need for medical and social long-term care support services. Client potential for community-based care options will be evaluated. Although eligible persons will not be prohibited from entering a nursing home, medicaid will support nursing home care only after an assessment has been performed.

—Funds available through the COP will be used to support services not otherwise available to the individual. An average of $336 per month per individual in State funds will be available for these purposes.

—Each county participating in the COP must create an interagency long-term support planning committee, assess the need to develop resources in the county, and develop a plan to coordinate COP funds expenditures with other county and State funds.

Another bill (A.J.R. 55) has been introduced in the State legislature which would commission studies on the feasibility and benefits of allowing income tax credits for taxpayers who maintain and support a developmentally disabled, mentally retarded, handicapped, or elderly person in the home.

Illinois

Illinois has appropriated $20 million in general revenue funds for fiscal year 1981–82 to provide three alternative services statewide. These services are chore/housekeeping, homemaker, and adult day care. Case management is not provided under this program. The State department on aging contracts with vendors who complete assessments on individual clients.

Other States such as Texas, Utah, and Virginia have developed preadmission screening programs and community care referrals. California has projects for coordinated community care, and the California State Legislature is considering legislation to consolidate categorical funding and administration for long-term care services. There are also other State programs operating on a demonstration or statewide basis, including foster care, congregate living facilities, and home care programs. Although only five to seven States have specific legislation implementing continuums of care in long-term care services, and many of the projects mentioned may be small, States have begun to address the issue of long-term care in a broader sense than only providing support for nursing home care and are attempting a coördinated approach.

In addition to the activities described above, States are beginning to take other steps to respond to rising long-term care costs, specifically nursing homes. These and other 1981 actions may affect the supply and quality of a critical component of any long-term continuum of care. No matter what reforms may be instituted, there is no doubt that institutions such as the nursing homes will continue to be needed.

C. FEDERAL LEGISLATION: 1981

1. Long-Term Care Reform

A. MEDICAID WAIVE FOR HOME CARE AND COMMUNITY-BASED SERVICES (SECTION 2176)

Based to a large degree on the Pepper/Waxman Medicaid Community Care Act introduced in the 96th Congress, section 2176 of the 1981 Omnibus Budget Reconciliation Act (Public Law 97–35) authorizes the HHS Secretary to waive medicaid statutory requirements in order to enable a State to cover a wide range of home and community-based services. Perhaps the major significance of this legislation is that, for the first time, a range of both health and personal care services as well as case management are specifically authorized in legislation, thereby, giving legislative recognition of the social as well as the medical aspects of long-term care under the aegis of the medicaid program.

Section 2176 emphasizes targeting services to individuals who would otherwise be institutionalized and coordinating services. Under the new law, a State can provide home and community-based services, pursuant to a written plan of care, to individuals who have been determined to otherwise require skilled nursing facility (SNF) or intermediate care facility (ICF) services which would be reimbursed by medicaid.

Services which may be provided (in addition to those already authorized under medicaid) include:

—Case management (defined in the conference report as a system under which responsibility for locating, coordinating, and monitoring a group of services rests with a defined person or institution).

—Homemaker/home health aide and personal care services.

—Adult day health.

—Habilitation services (defined in the conference report as encompassing both health and social services needed to insure optimal functioning of the mentally retarded and developmentally disabled).

—Respite care services (defined in the conference report as those given to an individual unable to care for himself which are provided on a short-term basis because of the absence or need for relief for those persons normally providing such care).

—Other services requested by the State and approved by the Secretary.

Room and board services are excluded from coverage under the waiver.

Section 2176 permits States to set limitations on services provided to individuals which may vary from those offered to other medicaid eligibles. This allows flexible eligibility requirements.

In order to obtain a waiver under this section the State must provide the following assurances:

(1) Necessary safeguards (including adequate standards for provider participation) have been taken to protect the health and welfare of individuals receiving services. Such safeguards must also assure financial accountability for expended funds.

(2) The State will provide for an evaluation of individuals' need for SNF or ICF services.

(3) Individuals determined likely to require SNF or ICF care will be informed of the feasible alternatives available, at their choice.

(4) The average per capita expenditure for individuals provided services does not exceed the average per capita amount which would have been expended for such individuals if the waivers had not been in effect (and therefore the individuals had been institutionalized).

(5) The State will annually provide to the Secretary information on the impact of the waiver on the type and amount of medical care provided and on the health and welfare of recipients. The information must be provided in accordance with a data collection plan designed by the Secretary.

Section 2176 specifies that a waiver granted under this section shall be for an initial term of 3 years. At the request of the State, it shall be extended for additional 3-year periods unless the Secretary determines that the required assurances have not been met in the preceding period. The past waiver authority only allowed for research and demonstration projects related to community-based and personal care services not contained in a State plan. The newly streamlined waiver process requires the Secretary to act on requests within 90 days of submission. Section 2176 now allows States to obtain waivers to implement these types of services and waives the requirement that the services must be offered statewide.

B. THE NONINSTITUTIONAL ACUTE AND LONG-TERM CARE SERVICES FOR THE ELDERLY AND DISABLED ACT (TITLE XXI)

First introduced in the 96th Congress, this bill was reintroduced in the 97th Congress as S. 861 by Senators Packwood and Bradley and a number of additional cosponsors. It would add a new title XXI to the Social Security Act providing for a 6-year demonstration of acute and long-term care services for persons aged 65 and over and for persons with chronic disabilities.

It provides for 10 statewide demonstrations, one in each Federal region, to test the implementation of an organized system of noninstitutional acute and long-term care services. S. 861 would combine all noninstitutional long-term care services offered under medicare, medicaid, and title XX, social services, into a new title XXI of the Social Security Act. It would also provide reimbursement for additional services such as respite care, adult day care, home-help services, and service coordination. A preadmission screening assessment team (PAT) would be made responsible for conducting a health status and functional assessment of each person seeking long-term care services and developing an appropriate plan of care for each person. S. 861 would also require that a copayment system be tested for individuals participating in the program, and that three different reimbursement methodologies (fee schedules, prospective reimbursement, and capitation payments) be tested under the project.

A companion bill (H.R. 3355) was introduced in the House of Representatives this year.

2. Tax Credits to Families for Long-Term Care

A. EXPANSION OF ADULT DAY CARE TAX CREDITS

Senators Paula Hawkins and Howard Metzenbaum and Representative Barber Conable introduced a bill to increase the amount of tax credits for child and dependent care. The bill was later successfully offered as an amendment to the Economic Recovery Tax Act of 1981 (Public Law 97-34), and will expand tax credits for adult day care. Beginning in 1982, expenditures for out-of-home, noninstitutional care of a disabled spouse or dependent, who regularly spends at least 8 hours a day in the taxpayer's home, are eligible for a tax credit. Under prior law, services outside the home qualified only if they involved the care of a child under 15 years of age. Day care services for dependent adults were eligible for tax credits only if provided in the home. Dependent care centers providing out-of-household services must be in compliance with State and/or local regulations in order for their costs to be deductible.

After December 31, 1981, taxpayers with an adjusted gross income of $10,000 or less will be entitled to a credit equal to 30 percent of employment-related expenses, which includes adult day care. The credit will be reduced by 1 percentage point for each $2,000 of adjusted gross income above $10,000. For taxpayers with adjusted gross incomes of over $28,000, the credit will remain at the 20-percent level, applicable under prior law to all taxpayers.

The maximum amount of employment-related expenses to which the credit can be applied is $2,400 if one qualifying child or dependent is involved, and $4,800 if more than one is involved. Thus, the maximum credit for one qualifying individual ranges from $720 for taxpayers with income below $10,000 to $480 for taxpayers with income in excess of $28,000. The maximum credit for two or more qualifying individuals will range from $900 to $1,440. Under prior law, the maximum amounts of employment-related expenses subject to the 20-percent credit were $2,000 for one qualifying individual, and $4,000 for two or more, with maximum credits of $400 and $800, respectively.

B. OTHER PROPOSED TAX CREDITS TO FAMILIES FOR LONG-TERM CARE

A tax credit to families caring for the elderly in their homes is included in the Community Home Health Services Act of 1981 (S. 234). A number of bills providing similar tax credits have also been proposed in the House of Representatives. These bills would change existing law by not requiring that these tax credits be linked to employment-related expenses and by waiving the current dependency requirements requiring that a taxpayer provide over 50 percent of the qualifying individual's support and that the qualifying individual may not have over $1,000 in taxable income.

3. Home Health

A. THE COMMUNITY HOME HEALTH SERVICES ACT OF 1981

The Community Home Health Services Act of 1981, introduced in January 1981 by Senator Hatch and others, would amend the Public Health Services Act to authorize grants to public and nonprofit private entities and loans to proprietary entities through fiscal year 1984 for establishing and operating home health programs. The legislation provides that grants and loans for these programs only be given to underserved areas (areas without home health services), with special consideration given to areas with inadequate means of transportation. Funds would also be provided for home health personnel training, with special consideration given to programs providing training for persons 50 years and older.

The bill would amend medicare to expand the care requirements that a person must have to qualify for the medicare home health program to include homemaker-home health aide, occupational therapy, and respiratory therapy. These services would be allowed as qualifying services only if the individual would require institutionalization in their absence. The bill would also allow the Secretary to expand the definition of organizations eligible to receive medicare and medicaid reimbursement for the provision of home health services as long as the organizations met certain requirements.

Finally, the legislation would amend title XIX of the Social Security Act (medicaid) by requiring States to include as a home health service under a State plan any item or service that is included as a home health service under medicare.

The bill was reported by the Committee on Labor and Human Resources in January 1982. Because the bill would amend medicare and medicaid, it will also have to be considered by the Finance Committee before any further action can be taken.

B. HOME HEALTH DEMONSTRATION PROGRAM

$4 million for previously authorized home health demonstration projects were folded into the preventive health services block grant as part of Public Law 97-35, the 1981 Omnibus Reconciliation Act. This will leave States the option of choosing to use these funds in the block grant for home health or other services.

C. COST CONTROL AND ADMINISTRATIVE ACTIONS

Congress also took some measures to control home health costs and to insure compliance with medicare requirements in the 1981 Omnibus Budget Reconciliation Act: (1) Effective July 1, 1981, occupational therapy was eliminated as a basis for initial entitlement to home health services although eligibility for such benefits may be extended solely on the basis of continuing need for occupational therapy, (2) medicare reimbursement limits currently applied to home health agency costs were reduced from the 80th to the 75th percentile, and (3) the Secretary of DHHS was required to establish utilization guidelines for home health services under medicare and to provide for the implementation of such guidelines through a program of post-payment coverage review of submitted claims by intermediaries.

The conference report on Public Law 97–35 did permit the continuation of the Secretary's authority to grant exemptions and exceptions from home health reimbursement limits. The conference committee also urged the Secretary to begin to impose these limits by type of service, rather than as a single aggregate limit.

D. OTHER FEDERAL ACTIONS IN HOME HEALTH, REGULATORY CHANGES

In March 1981, HCFA revised the home health manual to require home health agencies to justify those situations on which aide services are provided more than 1 to 2 hours per day, two to three times per week. Prior to the revision, the manual was unclear about the frequency of aide visits and was interpreted by some intermediaries to mean that aide services would have to be justified only if they exceeded 100 hours per month.

In an additional action, HCFA will no longer allow any new home health agencies to use its central Office of Direct Reimbursement for claims review and reimbursement. This function will be shifted to regional and State intermediaries. HCFA plans to eventually shift all of the home health agencies to this system. Some home health agencies have challenged in the courts the removal of choice to use the central office.

D. CURRENT PROGRAM ISSUES

1. Concerns With the Medicare Home Health Program

Even though home health's share of the total long-term care budget remains small, it has become one of the fastest growing components of Federal health expenditures. By the end of fiscal year 1980, total expenditures were about $1 billion. The largest increases, by far, have been in medicare. In fiscal year 1980, medicare reimbursement for home health services was $735 million, a fivefold increase since 1974.

Although home health care has been a medicare-covered benefit since 1966, it did not begin to grow until the mid 1970's, when 1972 congressional amendments simplified administrative payment mechanisms, eliminated coinsurance provisions, and extended medicare coverage to disabled persons and persons with end stage renal disease.[25]

According to DHHS's Inspector General, we may be on the brink of another period of accelerated growth due to 1980 amendments which took effect on July 1, 1981. These amendments: (1) Eliminated the 100-day visit limitation under part A of medicare, (2) eliminated the 3-day prior hospital stay requirement under part A, (3) eliminated the $60 deductible for home health benefits under part B, and (4) allowed proprietary home health agencies to be medicare certified in States without authorizing licensure laws (26 States have such laws).

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[25] The Inspector General's service delivery assessment of medicare's home health program.

The most frequently voiced concerns about expanding Federal medicare reimbursement for home health care are: (1) It would be an additional expense, without incentives to control costs, rather than a substitution for more expensive institutional care, and (2) it is very difficult to monitor and assure the quality of home-based care. Three studies released during the year have at least partially justified these concerns. However, they also criticized the limitations of the current program.

A. THE INSPECTOR GENERAL'S REPORT, DHHS

The 1981 Inspector General's service delivery assessment of medicare's home health program reported the following major findings:

(1) There is growing competition among the five major types of providers in home health. The two traditional types of providers—Visiting Nurses Associations (VNA's) and public health departments—are increasingly challenged by private nonprofit, hospital-based, and proprietary providers. The latter three have accounted for nearly all the growth that has occurred in home health agencies. Between December 1977 and March 1981, they rose from 30.2 percent of all medicare certified home health agencies to 39.4 percent. The most rapid growth has been by the private nonprofit home health providers, many of which are geared exclusively or almost exclusively to medicare clients. During the same period, the VNA's and Government providers dropped from 68.8 to 56 percent, with the greatest decline in public health departments.

This competition has increased access to home health in rural as well as urban areas, although the tilt toward medicare-eligible clients may not meet the service needs of many of the elderly chronically ill. The growth regions for the percentage of medicare enrollees receiving home health have been primarily in the West, Northwest, and South where private nonprofit, proprietary, and hospital-based agencies are most conspicuous.

This added competition is not, however, reducing costs. Instead, it is having the effect of putting upward pressure on costs since the private nonprofit, hospital-based, and proprietary providers are more expensive. In 1979, the average charge per home health visit was: (a) $36 for private nonprofits, (b) $35 for proprietaries, (c) $34 for hospital-based, (d) $26 for VNA's, and (e) $24 for Government agencies. The IG's report suggests that 1981 data shows that this gap remains, and that hospital-based providers may now be the most expensive of all.

(2) Due to tighter claims review processes, the frequency with which home health services are being delivered to individual clients appears to be holding at the same level or declining slightly. In the period between 1977 and 1979, the average number of visits per home health client increased from 20.7 to 21.7 for VNA's while it remained

constant for private nonprofits at 28.4 to 28.3 and actually declined for proprietaries from 26.5 to 25.5.

(3) Because the new agencies are even less connected to the social service network than the traditional agencies were, home health services are becoming more categorical. The essentially medical nature of the medicare home health benefit and the limited availability of other social services vital to the long-term care needs of the elderly population exert an overriding constraint on all providers. However, the IG's report found that little attention was paid to nonmedical problems by home health agencies.

(4) Most medicare home health clients were very elderly sick people with limited or no mobility, living with a spouse or family member who may also be elderly and in poor health. Most had multiple problems and needed chronic, not just acute, care and were generally moderate to low income. 63.7 percent were age 70 to 84, 69.2 percent were female, 67.8 percent lived with a spouse or other relative, 30.1 percent lived alone, 16.1 percent were self-ambulatory, 55.8 percent were mobile with assistance, and 27.1 percent were nonambulatory.

Only about 30 percent of the clients were receiving any of the other nonmedicare in-home services such as homemaker, personal care, or home-delivered meals which many clients said they needed. The two other service needs most reported were transportation and respite care to provide their families, the primary caregivers, with some relief.

(5) Almost all referrals, 76.7 percent, came from physicians or hospital discharge planners. There was almost no sign of active client participation in soliciting home health services. The IG found, however, that most hospital discharge activities have developed without planning and are very basic, developed mostly in response to utilization review. Few programs are actively involved in patient identification. The IG found the hospital assessment and referral programs one of the weakest parts of the home health program, concentrating on medical conditions and seldom on nonmedical needs. Discharge planners were generally not well acquainted with the range of in-home services available in the community, and discharge planning decisions were usually made in a very short period of time. However, once contacted, the response of home health agencies was usually very quick, often within 24 hours.

(6) The perception of the impact of medicare's home health program by all providers was that it primarily reduced the length of hospital stays. Many said the home health clients are now sicker, the same type of patients who previously would have stayed in the hospital 2 to 3 months. The IG reported that many of the clients seen would have been in a nursing home were it not for the care provided by a family member with support by the nurse and/or home health aide.

(7) Physicians were found to be generally uninvolved with home health care planning and services despite the fact that the law and regulations require them to be the pivotal home health decisionmakers. Nurses were almost totally responsible for decisionmaking.

(8) The key point of Federal control is review of monthly reimbursement claims submitted by providers to intermediaries or the HCFA direct pay office. Careful claim review is becoming increasingly difficult due to increased claims and tightened budgets. The IG observed increased cost consciousness among providers and fear of claim

denials. Providers complained of: (a) Unclear legislative guidelines (particularly concerning homebound status and level of care restrictions), (b) different intermediary interpretations of eligible services, (c) less intermediary capability to provide assistance with complex cost reporting requirements, and (d) requirements for allocating space, personnel, and other costs to other programs which seem to penalize them for being less than a "100 percent" medicare provider. The IG found this "particularly ironic" given Department concerns about the proliferation of home health providers who are totally dependent on the medicare program.

B. GAO REPORTS CONTINUING DIFFICULTIES WITH MEDICARE'S HOME HEALTH PROGRAM

The U.S. General Accounting Office (GAO) conducted a study to assess: (1) The reasonableness and medical necessity of the skilled care provided by home health agencies, (2) the need for home health aide services provided, and (3) the adequacy of controls to prevent unnecessary utilization of both aide and skilled services.

In reviewing a sample of medicare beneficiary medical files at 37 home health agencies, GAO nurses found 27 percent of the home health visits made were either "uncovered" or "questionable" under medicare law and guidelines. They also found that intermediaries deny few of these claims, 2 percent or less.

GAO based its evaluation on the following criteria: (1) If the patient is homebound, (2) if skilled care is needed, (3) if the services provided are reasonable and medically necessary, and (4) if the primary function of the caretaker is personal care of the patient.

According to GAO, the rank order of cause for determining that visits were either uncovered or questionable was: (1) The service was not necessary, (2) skilled care requirements were not met, (3) the client was not homebound, and (4) the care given was primarily homemaker, not personal care.

Like the IG report cited previously, GAO found that medicare guidelines, particularly related to homebound status, needed to be better defined. In addition, they also found the physician to be little involved in the home health planning or monitoring process.

GAO's purpose was not to evaluate the adequacy of the medicare home health program, but rather to see how the existing program complied with current medicare law. They found the program to be in need of more careful monitoring and clarification. One problem area cited is that intermediaries have insufficient information to make claims decisions, due in part to the incomplete medical documentation in many home health agency files. GAO found that intermediaries had few incentives to carefully review claims.

GAO reports that, currently, one-third of all visits under the home health program are for aides who help beneficiaries with their personal care. This number has increased significantly, from 23.4 percent in 1974 to 30.7 percent in 1978. (In 1978, 55.7 percent of home health visits were for skilled care.) While intermittent home health aide visits are authorized under medicare law for personal care and household services essential to health care at home, GAO felt that home health agencies do not carefully evaluate and use family and other resources. They did find that agency use of aides varies widely, with proprietary and private nonprofit agencies generally using aides to a greater extent than other agencies. Despite the above findings, GAO did note that the support from family and friends greatly exceeds the value of services provided by various public and private agencies.[28]

In testimony in November 1981, GAO noted that, while the use of home health care is expanding, it is still somewhat limited by: (1) Restrictions on eligibility and service coverage, (2) access problems in some areas, primarily rural and inner-city, and (3) lack of information on the types of services that are available and supported.

GAO stated that the way in which home health care services are currently provided needs to be improved because: (1) The reimbursement system lacks incentives to control costs, (2) the provision of services and funding is fragmented, (3) monitoring service use is difficult, and (4) data management is not always effective. However, they also noted that past demonstrations have shown that community-based services, including home care, attain positive patient outcomes—particularly in quality and longevity of life. In addition, GAO testified that cost studies do suggest that home health care can, at a minimum, be cost-effective for some groups of people, or for some services.

C. REPORT OF THE SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

The Senate Permanent Subcommittee on Investigations, chaired by Senator William V. Roth, conducted hearings on medicare home health fraud and abuse in 1981, and found that "the current retrospective cost-reimbursement system, as it applies to not-for-profit agencies, lends itself to fraud, waste, and abuse." In its October 1981 report, the subcommittee, joining others, including the home health industry itself, urged consideration of a prospective cost reimbursement system to encourage cost control and better financial planning for Government, home health agencies, and consumers.

The subcommittee also recommended methods for strengthening the current reimbursement system including: (1) Requiring home health agencies to solicit bids for all contracts in excess of $10,000, (2) phasing in competitive bidding for the award of claims processing contracts, (3) expediting the promulgation of bonding regulations so that mechanisms will exist to enable the Government to recoup overpayments, (4) clarifying unduly vague regulations defining terms of costs, (5) keeping budget levels sufficient to support adequate intermediary audits, (6) making intermediaries more accountable to home health agencies and consumers, and (7) strengthening the program's termination provisions and requirements for program participation.

2. Nursing Homes

A. MEDICAID CHANGES: THE EFFECT ON NURSING HOMES

The new 1981 legislation (the 1981 Omnibus Budget Reconciliation Act, more fully described in chapter 13) which placed limits on the Federal share of medicaid means additional pressures on States' already constrained medicaid budgets. In January of this year, more than one-half of the States reported moderate to severe funding problems in medicaid. Since nursing home costs comprise 40 percent or more of most State medicaid expenditures, it is inevitable that the availability of nursing home care will be affected.

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[28] "Medicare Home Health Services: A Difficult Program To Control," U.S. General Accounting Office. HRD-81-155, Sept. 25, 1981.

Prior to the enactment of the 1981 Federal budget, States had already begun to take measures to control medicaid costs, many directed at nursing home costs. In an October update of a May 1981 State survey, the Intergovernmental Health Policy Project reported that:

—7 States have adopted and 8 States are considering substantial changes aimed at limiting nursing home payments.

—11 States have placed tighter restrictions on the transfer of assets for gaining eligibility.

—9 States are initiating or expanding preadminission screening programs for nursing homes.

—5 States have placed a moratorium on the construction of additional long-term care beds.

The 1981 legislation not only placed limits on the growth of the Federal share of the medicaid program beyond the Federal estimated costs, it also made changes in medicaid's medically needy program. The act repealed the requirement that a State must provide coverage to all previously defined medically needy groups. It also repealed the minimum services package that a State medically needy program must provide.

The effects of the 1981 legislation and State measures to control nursing home costs on the supply and availability of nursing home beds for medicaid beneficiaries will bear scrutiny, as will the potential for shifting additional costs to private pay residents.

Further Federal actions have also been taken regarding nursing homes that some feel will lessen the costs of administrative regulatory burdens and others feel may compromise Federal efforts in assuring quality nursing home care.

B. SKILLED NURSING FACILITY CERTIFICATION SURVEYS

Section 2153 of the Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35) repealed the statutory time limit on certification agreements with skilled nursing facilities. Prior law required skilled nursing facility provider agreements to be renewed on an annual basis. In order to renew an agreement, a skilled nursing facility must undergo a survey to confirm its compliance with applicable health and safety standards. Section 2153 deletes the requirement for an annual certification, thereby permitting the Secretary and States increased flexibility in scheduling surveys. This change in law was intended to reduce expenditures by allowing nursing homes with good annual compliance records to be reviewed on less than an annual basis. Federal funds to States for survey and certification activities were also sharply reduced in the 1981 medicaid budget, so some adjustments in State activity will certainly occur. Some nursing home patient advocates, however, have expressed concern that this increased flexibility will result in further relaxation of an already weak compliance process. Many are also concerned about current discussions within the

Department which may lead to a proposal to allow States to contract for survey and certification activities with the Joint Commission on Accreditation of Hospitals.

C. CONDITIONS OF PARTICIPATION

In additional Federal actions, proposed conditions of participation for nursing home medicare and medicaid reimbursement issued in 1980 by the Carter administration were withdrawn by the current administration. Instead, the Health Care Financing Administration, at the request of the Vice President's Task Force on Regulatory Reform, undertook a reevaluation of existing nursing home regulations and plans to issue revised conditions of participation in late February or early March 1982. Early drafts of the new, proposed conditions of participation have generated considerable public controversy, particularly from aging and consumer groups who feel that some of the proposed changes will directly compromise quality patient care. One such early controversy centered around the proposed deletion of patients rights as a standard of care. Following public protests and the introduction of a Senate resolution reaffirming congressional support of patients rights as a standard of care by Senators Cohen and Heinz and other members of the Special Committee on Aging, HCFA appears to have reconsidered their position, dropping further discussion of weakening current standards for patient rights.

D. PUBLIC COMMENT ON REIMBURSEMENT CHANGES

New regulations were already issued in October 1981 to provide more State flexibility in prior notification of medicaid reimbursement rate changes. Prior regulations required 60-day notification and public comment on proposed changes of more than 1 percent. The final regulation requires only that notice be given for "significant" changes. No specific time for public comment is required. Although this has engendered opposition from the nursing home industry, it represents a compromise from the initial proposed regulatory change which simply repealed the 60-day prior notification requirement.

E. SUMMARY

The need for long-term care reform and the inadequacies of the present long-term care system have received public attention throughout the past decade. Actions have been taken to strengthen quality assurance in nursing homes and to add programs, however small, to provide personal care services to help the elderly to remain independent. Federal research and demonstration projects have been directed at finding methods of service delivery to coordinate fragmented services and develop a continuum of care. And, in 1981, Federal legislation was enacted which gives States, at least under medicaid, the opportunity to develop coordinated systems of a wide range of medical and social long-term services.

Although these actions represent some progress in long-term care, much remains to be done. Costs of nursing home services are rising at an annual rate of 16.9 percent in 1981, 1.9 percent higher than even the high general costs of health care.[27] In-home and community based services need to be further developed, and rising nursing home costs may reduce resources available to develop other services and necessary system reforms. Indeed, based on some State actions, attempts to limit the growth of nursing home expenditures may begin to threaten the one protection for the elderly which provides nursing home coverage when they are unable to pay, the medicaid program. It is clear that increasing nursing home costs, the lack of coverage for long-term care for the chronically ill, and the absence of a system that emphasizes appropriate levels of acute and long-term care will continue to be dominant issues in health care for the elderly for years to come.

Although the elderly population at all ages is healthier than before and their care can be expected to improve, the population needing long-term care is unlikely to decline from present numbers. While future projections of need may be unduly high, pressures on the long-term care system are certain to grow.

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[27] Health Care Financing Administration, Department of Health and Human Services, unpublished data.

Part V

SOCIAL SERVICES

Federal programs which support a broad range of services to older Americans today play an important role in the effort to meet needs and expand opportunities. These are the programs which provide funds to operate senior centers; to serve meals; to fund home health services; and to support training, education, transportation, and legal services to older persons.

In contrast to the entitlement programs—social security, SSI, food stamps, medicare, and medicaid—these programs are funded by discretionary appropriations from the general fund. They consume a relatively small part of the Federal budget devoted to older Americans. Most of these programs experienced major reductions in funding during 1981. Many were also consolidated into block grant programs, which will leave the continuation of specific service levels to the judgment of individual States.

The major exception to this trend was the Older Americans Act—the principal services program exclusively serving persons over 60.

The 1981 Comprehensive Amendments to the Older Americans Act reaffirmed strong and continuing congressional support for the programs funded under its auspices. The amendments provide for a 3-year reauthorization of the act, with only relatively minor modifications, which provided for some added flexibility in targeting service dollars. The new amendments maintain separate authorizations for supportive services, congregate, and home-delivered nutrition services, but permit State agencies to transfer up to 20 percent of social service funds for nutrition services and vice versa.

In addition, the act deletes the requirement that State agencies spend 50 percent of supportive services funds for in-home, access and legal services, and instead requires that "an adequate portion" of agency funds be spent for such services. The act includes new language that adds boarding homes to the definition of long-term care facilities for the purpose of the ombudsman program.

The 1981 amendments delete the specific areas of special consideration in the existing demonstration programs under title IV, and include instead emphasis on projects related to long-term care, special housing needs of the elderly, rural transportation, and utility and home heating demonstrations. In addition, mental health model projects are given priority status.

The senior community services employment program, title V, which is administered by the Department of Labor, was also reauthorized for a 3-year period. New emphasis was placed in this program for developing model projects designed to demonstrate methods of training and placement of eligible persons in the private sector.

Title XX underwent a significant structural change in 1981. The Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35) amended the existing title XX to establish a new social services block grant. The act consolidates both title XX social services and training. The social services block grant agreed to under the Reconciliation Act is authorized at $2.4 billion for fiscal year 1982, which represents a 20-percent cut from the 1981 funding level. States receive allotments based on population, and are free to design their own social services programs to several general provisions.

The older Americans volunteer programs administered by ACTION were reauthorized under provisions of the Omnibus Budget Reconciliation Act. The senior companion program, the retired senior volunteer program, and the foster grandparent program provide opportunities for persons aged 60 and over to volunteer their services to the community. For fiscal year 1981, the older Americans volunteer programs received modest increases over the 1980 levels.

In the 1981 Budget Reconciliation Act legislation, House-Senate conferees agreed to repeal the Economic Opportunity Act and abolish the Community Services Administration (CSA). Funding for antipoverty activities will now be administered by the Department of Health and Human Services (HHS) as a block grant to States. The funds will constitute a separate block grant, entitled the community services block grant.

The Legal Services Corporation was created in 1974 as a private, nonprofit corporation to provide legal assistance to the poor. In fiscal year 1981, the Corporation was funded at $321 million. The Budget Reconciliation Act did not include legal services in the reconciliation bill. Rather, there was an agreement by the House and Senate that the question of reauthorization of the Corporation be treated through separate legislation. The House passed a 2-year authorization for the Corporation at an annual funding level of $241 million. The Senate Labor and Human Resources Committee has reported a 3-year reauthorization at $100 million per year. The Corporation is currently being funded under the authority of a continuing resolution (Public Law 97–92).

On July 17, 1981, the Department of Transportation proposed new regulations for implementation of section 504 of the Rehabilitation Act of 1973. The proposed regulations, if adopted, basically will be a return to the "special efforts" regulations in effect prior to 1979, wheelchair lifts on buses and elevators and rail stations will no longer be required as a prerequisite to Federal funding.

Section 16(b)2 of the Urban Mass Transportation Act received decreased funding in 1981 from $42.8 million in fiscal year 1981 to $34.2 million in fiscal year 1982. This program is designed to provide private nonprofit agencies with capital assistance for vehicles. In the past, it has played an important role as capital "seed" money for transportation to the elderly.

Progress has been slow in the field of education and aging. While title I of the Higher Education Act has set far-sighted goals in the area of continuing education, it has not been funded in this time of budget restraint. Through the Older Americans Act Amendments of 1981, specific reference is now made to "education and training" for older adults.

Chapter 15

OLDER AMERICANS ACT

OVERVIEW

The Older Americans Act sets out 10 policy goals aimed at improving the lives of older Americans in areas of income, health, housing, employment, retirement, and community services (title I), and provides the legislative basis for the creation of the Administration on Aging (AoA) within the Office of the Secretary of the Department of Health and Human Services (DHHS) (title II). The act also establishes authority for the following: Development of programs to assist older persons (especially those who have the greatest social or economic needs) through grants to States, which in turn award funds to area agencies on aging (title III), and grants to Indian tribal organizations (title VI) for community planning and social, nutrition, and senior center services; development of research, demonstration, and training programs in the field of aging (title IV); and development of community service employment programs for low-income persons 55 years of age or older (title V).

The total fiscal year 1980 appropriations level under the act was more than $919 million, with the largest share directed at title III, grants for State and area agencies on aging activities—almost $600 million. In fiscal year 1980, there were approximately 610 area agencies on aging, 1,185 nutrition service providers, and 12,556 congregate nutrition service sites. Over 9 million older persons were recipients of social and community services under approved area plans on aging, 54 percent of whom were low-income older persons, and 22 percent minority. Nutrition services participants totaled over 3 million, 62.5 percent of whom were low-income older persons, and 19 percent minority. Over 145 million meals were served through title III funds in fiscal year 1980.

A. HISTORY

The Older Americans Act of 1965 set out a declaration of objectives aimed at improving the lives of older Americans in the areas of income, health, housing, restorative services, employment, retirement, cultural and recreational opportunities, community services, and gerontological research. In the 16 years since it was first enacted, the act has succeeded in creating a comprehensive system for providing needed services in the community to help older persons remain self-sufficient and independent. During this time, the programs have grown from a few small social services grants and research projects to a network of 57 State units on aging, over 600 area agencies on aging and countless community organizations providing services to older adults.

The Older Americans Act was first enacted in the 89th Congress (Public Law 89-73) and has been amended nine times. The original act established the Administration on Aging (AoA) as the Federal-level agency responsible for the administration of programs under the act, and authorized State and community social service programs, research, demonstration, and training projects. Provisions of the original legislation were extended by the amendments in 1967. The 1969 amendments strengthened the title III community services programs and charged State agencies on aging with statewide responsibilities for planning, coordination, and evaluation of programs for older persons. Areawide model projects that would test new approaches in meeting the social service needs of the elderly were also included in these amendments.

Major amendments to the act occurred in 1972 and 1973. The 1972 amendments created the national nutrition programs and authorized grants to public and nonprofit sponsors for the development of congregate meal services. In addition to meeting the nutritional and social service needs of persons 60 years of age and over, Congress envisioned that the program would serve as an important vehicle for fostering social interaction among participants.

With the enactment of the 1973 amendments, the Older Americans Act was significantly revised and expanded by the creation of area agencies on aging. These organizations were given major responsibility for planning, coordinating, and advocating for programs that would benefit older persons. Area agencies were designated by the State unit on aging to operate within a defined planning and service area, and were primarily charged with utilizing their limited service funds as catalysts for garnering other services dollars for older persons. The 1973 amendments created a National Information and Resource Clearinghouse for the Aging and a Federal Council on Aging, and authorized grants for multipurpose senior centers, and a community services employment program for older persons.

Amendments to the act in 1974, 1975, and 1977, primarily extended the authority for continued program operation, as well as made a number of minor adjustments to the act.

Amendments made in 1978 further strengthened and expanded title III of the act by consolidating the social services, multipurpose senior center, and nutrition services portion of the act. These parts were previously authorized under separate titles and under separate administrative authorities. These amendments also required that area agencies on aging expend at least 50 percent of their social service allotments on certain designated priority services, which included access, in-home, and legal services. In addition, a separate authorization for home-delivered meals under title III was made. Previous requirements that State and area agencies develop annual plans on aging services were altered to allow for 3-year planning cycle. These amendments also mandated that each State unit on aging establish a statewide nursing home ombudsman program, and added a new title VI to the act which authorized grants for social and nutritional services to Indian tribal organizations. The community service employment program (title V) was amended to raise the income eligibility requirements for participants from the Office of Management and Budget poverty level to 125 percent of the poverty level, and to increase the proportion of funding to States under the program.

B. 1981 AMENDMENTS TO THE OLDER AMERICANS ACT

Authorization for appropriations under the Older Americans Act Amendments of 1978 expired on September 30, 1981. A number of bills to reauthorize the act were introduced in the first session of the 97th Congress.

The major proposals under consideration included:

—S. 1086, the Older Americans Act Amendments of 1981, was introduced by Senator Denton on April 30, 1981, and was referred to the Committee on Labor and Human Resources. This bill was reported favorably on July 20, 1981 (S. Rept. 97–159), and eventually became the principal reauthorization measure.

—H.R. 3046, the Older Americans Act Amendments of 1981, was introduced by Representative Andrews on April 7, 1981, and referred to the Committee on Education and Labor. This bill was reported favorably on May 19, 1981 (H. Rept. 97–70), and was originally included in the House reconciliation bill. It was subsequently taken out when the Latta substitute was adopted by the House as its principal reconciliation measure. Many components of H.R. 3046 were incorporated into S. 1086 during final consideration.

--Two additional measures were also introduced. S 1121 was the Reagan administration proposal, and was introduced at administration request by Senator Denton on May 6, 1981. H.R. 3267 was introduced by Representative Biaggi on April 28, 1981, and contained certain proposals which were subsequently incorporated into H.R. 3046.

As mentioned above, S. 1086 become the principal reauthorization measure when it was passed by the full Senate on November 2, 1981. This bill was referred to the House for action, and was subsequently passed by the House, with amendments, on November 20, 1981. On December 10, the House and Senate held a conference to resolve the differences between the amendments to S. 1086. The conference report on S. 1086 (Rept. No. 97–293) was eventually approved by both the House nad the Senate.

As agreed to by Senate-House conferees, the Comprehensive Older Americans Act Amendments of 1981 (signed into law as Public Law 97–115 on December 29), included the following significant features:

—The act is extended through 1984, with State and area agency planning requirements being modified to allow each State the choice of 2, 3, or 4-year planning cycles.

—Language is retained that would require that the Commissioner on Aging to report to the "Office of the Secretary" rather than directly to the Secretary of HHS. Some clarification was made in the conference report relative to the functions of the Commissioner on Aging as they relate to the overall "common" functions within the Department of Health and Human Services.

—The National Information and Resources Clearinghouse under the Administration on Aging is eliminated.

—The act retains language to continue separate authorizations under title III for supportive social services, congregate nutrition services, and home-delivered nutrition services. A new provision was added to allow States the option to transfer up to 20 percent of the funds appropriated for any fiscal year between social service and nutrition programs.

—The amended act eliminates the requirement that 50 percent of the funds appropriated for social services be spent on the designated priority services (access, in-home, and legal). The new language now requires that "an adequate portion" of area plan funds be spent on such services.

—Language is retained that would require States to spend 1 percent or $20,000 of their social services moneys (whichever is greater) to operate a nursing home ombudsman program. Additionally, language has been included which adds boarding homes to the definition of long-term care facilities for the purposes of the ombudsman program.

—A fixed authorization ceiling on the USDA commodities program is included, and the cash/commodities program is retained under the jurisdiction of the Department of Agriculture. The existing method of distributing funds among the States—based on the number of meals served, over the 1981 level—is retained.

—The new act deletes the specific areas of special consideration in the existing demonstration section under title IV, and includes instead, emphasis on projects related to long-term care, special housing needs, and rural transportation. The conferees also emphasized that mental health demonstration projects were to receive "high funding priority."

—Under service programs, language has been added to include a number of new services as allowable supportive services under title III. They include: Services to encourage employment of older persons, crime prevention and victim assistance programs, and the installation of security devices and structural changes of residences of the elderly to prevent unlawful entry.

—Under title IV discretionary projects, previous provisions to give priority to legal service development and provide for a $5-million set-aside for such activities was deleted. New provisions added to this section allow the Commissioner on Aging to award grants or contracts with organizations to support demonstration projects to expand or improve the delivery of legal services to needy older persons, and support the activities of States and area agencies on aging in developing and providing such programs.

—Under title V, the senior community services and employment program, the new amendments require the Secretary of the Department of Labor to use at least 1 percent, but no more then 3 percent, to demonstrate methods of training and placement of eligible persons in the private sector.

C. MAJOR ISSUES IN REAUTHORIZATION

During the 1981 reauthorization process a number of issues related to the previous amendments were brought under consideration.

Most observers felt that 1981 was not the time for a major rewrite of the act, but rather, amendments should be geared toward attempting to "fine-tune" many of the programs with the goal of improving both the effectiveness and efficiency under the act. Additionally, several factors were cited in determining how much the act should be modified during

1981. They included: Delay in the implementation of the regulations under the 1978 amendments, possible recommendations emanating from the White House Conference on Aging, and recommendations that would be forthcoming from several national studies that related to the operation of community aging programs.

Although the act was amended in 1978, final regulations to implement the major amendments, that is, those related to the States and area agency programs under title III, were not published in final form until March 31, 1980. Some individuals noted that since the State and agencies on aging had only been operating a few months under the new regulations, the act should not be substantially altered.

Finally, both the Special Committee on Aging and the Subcommittee on Aging, Family and Human Services of the Committee on Labor and Human Resources had requested the General Accounting Office to examine how well State and area agencies on aging were fulfilling their mandates under the act. There seemed to be general agreement that the results of these investigations should be carefully reviewed prior to any major adjustments in the existing law.

With respect to the time period for reauthorization of the act, most observers favored a 3-year reauthorization for all titles of the act. Although there was some early disagreement on the reauthorization period, legislation reported by both the Senate and House authorizing committees (i.e., S. 1086 and H.R. 3046) included a 3-year reauthorization for all titles. An initial proposal submitted by the Reagan administration included a 3-year authorization for all titles of the act except title V, the senior community service employment program, which is the only title not administered by the Department of Health and Human Services. Instead, the administration proposed a 1-year extension of the authorization for title V to bring it into the same time frame as the Comprehensive Employment and Training Act. The administration indicated that this action was being proposed to allow the Department of Labor to simultaneously conduct a comprehensive review of all employment and training programs.

Another factor considered in evaluating the extent of amendments was the occurrence of the decennial White House Conference on Aging which was held in December 1981, several months after the expiration of the act's authorization. There was a belief that because information would be gathered through White House Conference activities during 1981, any substantial changes in the act should reflect the recommendations of this Conference.

1. Issues Related to Consolidation for Social and Nutritional Services

The 1978 amendments which combined the social services, nutrition services, and senior center programs into one title and administrative structure under title III of the act represented a major change in the structure of the aging network programs at the State and local levels. Previously, title III social services were funded through area agencies; title VII nutrition services were funded through area agencies on aging or directly by State agencies on aging; and title V senior center grants were awarded directly by the Commissioner on Aging. The consolidation of these separate titles into one title was intended to foster greater coordination among the Older Americans Act programs with area agencies on aging responsible for managing funds for social, nutrition, and senior centers within their respective planning and service areas. It was assumed that consolidation of the service programs would increase the visibility and significance of area agencies' scope of operations, as well as improve coordination among the service components under the act.

Because of the significance of the 1978 provisions to restructure title III and its consequences for State and area agencies on aging, a major issue under examination during the reauthorization process was the effect of this provision on program administration and service delivery. Although the 1978 amendments consolidated three separate titles under one title, they required separate authorizations and, therefore separate appropriations for three service components under the act—social services and senior centers (title III–B); congregate nutrition services (title III–C–1); and home-delivered nutrition services (title III–C–2). Some observers felt that because of the existence of three separate authorizations and appropriations for services, the consolidation has not enhanced coordination of services to the fullest extent and has not reduced administrative burdens on States and area agencies. Some noted that because of the separate authorizations/appropriations, elements of administrative duplication exist; for example, requirements for separate reporting procedures among the categories of service. In fact, some observers noted that paperwork and administrative burdens have actually increased. Moreover, many felt that the separate appropriations for the service components did not allow for local determination regarding the appropriate mix of services to be supported and hindered local planning initiatives.

Another effect of the 1978 amendments was a change in the manner in which funding for the separate nutrition services component could be used. Prior to 1978, nutrition projects were required to support a variety of social services in conjunction with the operation of nutrition projects. Federal regulations at that time provided that a portion (but no more than 20 percent) of the State's allotment for nutrition services could be used to fund a variety of supportive services, including transportation, health and welfare counseling, recreational activities, and nutrition education. The 1978 amendments required that States could continue to provide social services to support nutrition services with the nutrition services allotment only for fiscal years 1979 and 1980. Beginning in fiscal year 1981, States were required to fund such social services only with funds available under the social services allotment. Some observers indicated that due to this change in the law, and because social services funding increases have not kept pace with increases for nutrition services, there were limitations on the ability of local planners to program an adequate supply of social services to support nutrition projects. In some areas, shortages of social services funds, especially for transportation, to support nutrition services, had been reported.

In order to address these issues, some observers favored the merging of authorizations/appropriations for social services and nutrition services under title III. Some, including representatives of major aging organizations, indicated that merging of these various program components would afford State and area agencies on aging greater flexibility in determining the appropriate mix of services under the act, and that service allocations could be more responsive to locally determined need. In addition, some indicated that under this plan there would be a reduction in administrative burden and duplicative fiscal and program reporting.

On the other hand, some observers indicated that under such a merger proposal, the social and nutrition service components would lose their individual identity and their original purpose and intent would be diluted. In addition, some believed that a merger could mean less total funding for services. An alternative to the merging of the three separate components was a proposal to allow a transfer of funds between the nutrition and social service allotments. It was believed that this proposal would remedy the problem of a shortage of social services funds to support nutrition projects noted above. Some also felt, that this approach would be more satisfactory than the merging of the authorizations/appropriations of the three service components, while at the same time resolving some of the problems of service delivery. This more moderate approach was preferred by some who felt that it is not timely to propose the more extensive changes entailed in a merger of the social and nutrition authorizations/appropriations.

Senate bill 1086, introduced by Senator Denton, on April 30, 1981, originally proposed that the authorizations/appropriations for social services, congregate nutrition services, and home-delivered nutrition services be consolidated. However, the bill, as reported by the Senate Labor and Human Resources Committee on June 24, 1981, retained separate authorizations/appropriations for social services, and consolidated authorizations/appropriations for the congregate and home-delivered meals programs. The House measure, as reported by the House Education and Labor Committee on May 19, 1981, did not consolidate authorizations/appropriations, but did allow a State to transfer not more than 20 percent of allotted funds between the social services and nutrition services allotments.

2. ISSUES RELATED TO PRIORITY SERVICES UNDER TITLE III

The 1978 amendments required that area agencies spend at least 50 percent of their social service allotments on access, in-home, and legal services. The Senate Committee on Human Resources was concerned at the time that "there should be a concentrated effort to better meet the most crucial needs of the elderly" and despite a requirement imposed in 1975 that funds under the program be directed at certain priority services "very few services are provided in-depth in local communities. Rather, there appears to be a scatter-gun attempt to provide a wide array of services, none of which adequately serves the needs of the elderly in the community."[1] The 50-percent rule may be waived in those circumstances where the need for services is being met through non-Older Americans Act funding sources.

Many observers favored an elimination of the requirement for priority services. They felt that a requirement for expenditure of a fixed amount of funds for certain services hindered local flexibility in providing services most needed by older persons within a given planning and service area. In addition, elimination of the requirement would lessen the administrative and reporting burden on State and area agencies. On the other hand, some observers felt that certain service priorities should be established at the Federal level in order to provide some direction to States. Some observers felt that the statute should retain some emphasis on legal services, in particular, since the status of the Legal Services Corporation which provides legal services to older persons, was threatened.[2]

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[1] U.S. Congress. Committee on Human Resources. Older Americans Act Amendments of 1978, Senate Report No. 95-855, 95th Congress, Washington, U.S. GPO, 1978. page 10.

S. 1086 as originally introduced, would have eliminated the requirement for expenditure of funds on the three priority services. However, as reported by the Labor and Human Resources Committee the bill eliminated the requirement for expenditure of specific sums on priority services, and instead required that an area agency expend "a portion" of its funds on these services. Similarly, H.R. 3046 required that an area agency expend an "adequate proportion" of funds on access, in-home, and legal services.

3. ISSUES RELATED TO THE ORGANIZATIONAL STATUS OF THE ADMINISTRATION ON AGING

A perennial issue in the Older Americans Act amendment process is a review of the organizational status of AoA within the Department of HHS. Title II of the act requires that the Commissioner on Aging be directly responsible to the Office of the Secretary of HHS. Administratively, AoA is placed within the Office of Human Development Services (OHDS), and the Commissioner reports to the Secretary through the Assistant Secretary of Human Development Services. Although there was some consideration given to modifying the organizational status of AoA in the 1978 amendments, Congress believed that there was some benefit in having AoA remain within HHS so that it could coordinate its program with other human services programs. However, the issue was not completely closed. The Senate Committee on Human Resources reported that, "while no new action with respect to AoA's placement in OHDS was taken in connection with this bill, it is a matter of continuing interest to the committee."[3]

The continued concern regarding the legality of the OHDS organizational structure as it relates to the Administration on Aging prompted the Senate Special Committee on Aging to request the General Accounting Office (GAO) to prepare a report on the impact of the 1980 OHDS reorganization on the effectiveness and efficiency of AoA. Among the various issues to be addressed, the committee specifically instructed the GAO to determine if OHDS staff units have infringed on and usurped the responsibilities of the Commissioner on Aging; whether the requirement that the Commissioner of AoA report through OHDS staff units has resulted in duplicate functions and excessive administrative burdens; and whether OHDS had attempted to analyze workload requirements and staffing needs.

By way of background, it was in 1973 that the then Secretary of Health, Education, and Welfare created the Office of Human Development. In 1977, the Office was reorganized and renamed OHDS. It administers a wide range of human services and development functions designed to assist in alleviating the problems of the elderly, the handicapped, children, and Native Americans. OHDS, which was again reorganized in May 1980, is headed by an Assistant Secretary and consists of three headquarters staff units and four programs units (refer to chart 1).

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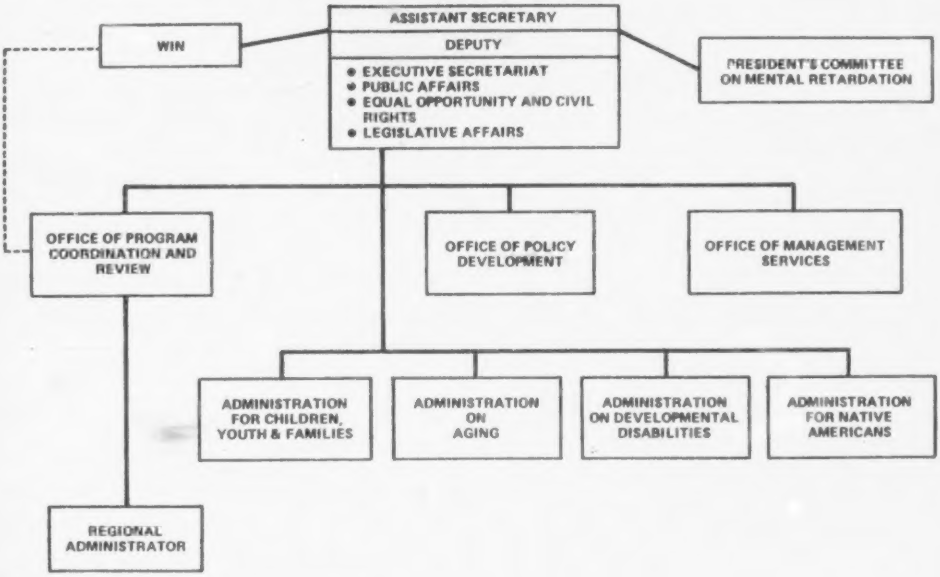
[2] U.S. Library of Congress, Congressional Research Service, Legal Services Corporation: Proposed Termination, Issue Brief No. IB81071, by Karen Spar, updated June 9, 1978, Washington, 1981.

[3] U.S. Congress, Committee on Human Resources, Older Americans Act Amendments of 1978, Senate Report No. 95–855, 95th Congress, Washington, U.S. GPO, 1978, page 5.

FIGURE 1

DEPARTMENT OF HEALTH AND HUMAN SERVICES
OFFICE OF HUMAN DEVELOPMENT SERVICES [1]


ASSISTANT SECRETARY
DEPUTY
• EXECUTIVE SECRETARIAT
• PUBLIC AFFAIRS
• EQUAL OPPORTUNITY AND CIVIL RIGHTS
• LEGISLATIVE AFFAIRS
WIN
PRESIDENT'S COMMITTEE ON MENTAL RETARDATION
OFFICE OF PROGRAM COORDINATION AND REVIEW
OFFICE OF POLICY DEVELOPMENT
OFFICE OF MANAGEMENT SERVICES
ADMINISTRATION FOR CHILDREN, YOUTH & FAMILIES
ADMINISTRATION ON AGING
ADMINISTRATION ON DEVELOPMENTAL DISABILITIES
ADMINISTRATION FOR NATIVE AMERICANS
REGIONAL ADMINISTRATOR

[1] Organizational structure after reorganization in May 1980.

The Administration on Aging is the only program unit created by legislation. The other program units were created administratively by the Secretary, generally by consolidating several programs that served the same target population.

The Older Americans Act of 1965 (Public Law 89–73, July 14, 1965) created the Administration on Aging and placed it within the Department of Health, Education, and Welfare. To insure some independence for the AoA, the 1974 amendments to the Older Americans Act prohibited the functions of the Commissioner on Aging from being delegated to individuals not directly responsible to the Commissioner. This prohibition did not apply to certain routine administrative functions for the AoA, such as budgeting and personnel administration, which are not specified in the act as functions of the Commissioner. It did, however, apply to the policymaking and nonpolicymaking responsibilities related to functions clearly given to the Commissioner on Aging by the act, such as the administration of grants and contracts and financial management for grants.

In a report to Chairman John Heinz, dated April 20, 1981, Milton Socolar, the Acting Comptroller General of the United States stated:

> The Secretary of Health and Human Services (formerly the Department of Health, Education, and Welfare) had the full legal authority to create OHDS, place it under an Assistant Secretary, and make it responsible for program agencies, such as the Administration on Aging. However, OHDS' present organizational structures (see app. II) violates provisions of 42 U.S.C. 3011(a) (section 201(a) of the Older Americans Act, as amended) which state: "The Secretary shall not approve any delegation of the functions of the Commissioner to any other officer not directly responsible to the Commissioner."
>
> Specifically, the structure violates the provisions because grants and contract officers located in OHDS' Office of Management Services are not directly responsible to the Commissioner on Aging even though they perform many grant and contract administration functions regarding the Administration on Aging, and financial management responsibility for the Administration on Aging's discretionary and formula grants is vested in regional office personnel who are not directly responsible to the Commissioner on Aging.

Reporting on the violation of administrative functions surrounding certain grant and contract management, GAO stated:

> Section 2(a) of the 1974 amendments to the Older Americans Act (Public Law 93-351, July 12, 1974, 88 Stat. 357) amended section 201 of the act to prohibit the Commissioner on Aging's functions from being delegated to individuals not directly responsible to the Commissioner. However, since 1977, OHDS' discretionary grants and contracts administration functions, including those for the Administration on Aging, have been centralized in one of its staff units—the Office of Administration and Management (now the Office of Management Services). Although this staff unit performs many grant and contract administration functions regarding the Administration on Aging, it is directly responsible to the Assistant Secretary of Human Development Services, not to the Commissioner on Aging.
>
> * * * In a similar situation, OHDS' contract officer, who is not responsible to the Commissioner on Aging, is the authorized official to sign the Administration on Aging contracts on behalf of the Federal Government and has final authority to approve or disapprove program units' contracts, including those for the Administration on Aging. We believe this also violates the same statutory restriction.

In discussing the financial management responsibilities for the Administration on Aging, GAO reported that both discretionary and formula grants financial management were centralized with those of other OHDS units in the newly created regional offices of fiscal operations. GAO reported that these regional offices of fiscal operations report to the regional administrator who is directly responsible to the Assistant Secretary and not to the Commissioner of Aging. Since these offices plan and direct the fiscal monitoring of the AoA grantees, but do not report to AoA, GAO again found violations with the Older Americans Act.

Although the GAO report did not identify any adverse effects associated with these violations, nor find any evidence of duplicate functions or excessive administrative burdens, it did point out that Congress clearly intended that certain policy functions were the responsibility of the Commissioner on Aging. The GAO did note in the report that the Department of Health and Human Services disagreed that its organizational structure violated the provisions of the Older Americans Act, but GAO did indicate that the HHS opinion in this regard was believed to be invalid.

In drafting its conclusions and recommendations to the report, GAO stated:

> Because OHDS is violating the Older Americans Act in the administration of certain grant and contract administration functions and financial management functions, it must make changes to correct these matters. Contrary to the Department of Health and Human Services' opinion, we believe the functions (policymaking and nonpolicymaking) of administering grants and contracts and financial management for grants have been vested by statute in the Commissioner. Thus, delegation of these functions to offices not directly responsible to the Commissioner violates the statutory restriction.
>
> We do not know if the changes that are necessary for OHDS to comply with the Older Americans Act will be more or less beneficial. However, if the Secretary finds that his complying with the Older Americans Act adversely affects his efforts to achieve effectiveness and efficiency, he should document any adverse impact and, if necessary, initiate legislation to amend the act.
>
> We recommend the Secretary of Health and Human Services revise OHDS' organization to discontinue the delegation of the Commissioner on Aging's functions, which allows OHDS grant and contract officers to perform administrative functions regarding the Administration on Aging's discretionary grants and contracts; and OHDS regional offices of fiscal operations to handle financial management functions for the Administration on Aging's discretionary and formula grants.

Many observers believed that because of the magnitude of issues in the field of aging and because the goals of the Older Americans Act interesect with many other Federal programs, AoA's organizational status should be elevated to allow greater visibility and leverage for aging programs and policy. Some felt that a high level office within the Federal governmental structure is necessary to assure continuous review of program and policy formation as it affects the status of older persons. Others noted that AoA, in its current organizational position, cannot be the advocate which Congress intended. On the other hand, observers feel that it would not be feasible to raise the status of one organization responsible for one human service group as compared with other groups, and that organizational status alone does not necessarily affect ability to be an advocate. In addition, some observers feel that upgrading the position will not accomplish the objective of more effective aging policies unless significant authority is attached to the position and sufficient staff to support the position is added.

H.R. 3046 proposed altering the current law by requiring that the Commissioner on Aging report directly to the Secretary of HHS rather than to the Office of the Secretary. This bill would also have required funds for salaries and expenses for AoA to be appropriated directly for the Commissioner to administer rather than as part of another department official's appropriation. S. 1086 made no change in the current legislation relating to organizational status.

4. ISSUES RELATED TO USDA COMMODITIES PROGRAM

Another proposal under consideration was the elimination of the current provisions for U.S. Department of Agriculture (USDA) reimbursement for meals served under title III. In addition to title III funding for nutrition services, States also receive assistance from USDA to support meals. Under section 311 of current law, USDA is mandated to provide commodities, or cash in lieu of commodities, to supplement the costs of providing meals through the title III meals program. State agencies receive from USDA an annually programed level of assistance that is based on the number of meals served with title III funds. The USDA reimbursement is provided on a per meal basis in an amount adjusted for inflation to reflect changes in the Consumer Price Index for food away from home (for fiscal year 1981, set at 47.25 cents per meal). A State may elect to receive this assistance either in the form of donated commodities or the cash equivalent of the commodities. For fiscal year 1982, the USDA projects that the mandated value of commodities provided in support of the program would be 53.25 cents per meal, at a total cost of $95.5 million. In fiscal year 1981, of the estimated $84.7 million in USDA assistance provided for this program, $73.9 million is estimated to be provided in the form of cash payments and $10.8 million in commodities. This $84.7 million supported the costs of serving 179.3 million meals to the elderly.

S. 1086 proposed eliminating the USDA assistance in support of the title III nutrition program. In its place, a lump sum of funds would have been added to title III funds and the total would have been distributed to States based on the current title III funding formula, i.e., based on the State's share of the 60-and-over population as compared to all States. (For fiscal year 1982, the administration requested $95.5 million to be added to title III funds. This amount was estimated to be equal to the amount which would be available through the USDA commodity support for the program in fiscal year 1982 under the current law.) Under this Senate proposal, Federal support would no longer be based on the number of meals served but would be provided through the allocation of a fixed amount based on the State's share of the aged 60-and-over population.

The proposal had the advantage of consolidating all nutrition program funds into one funding source and administrative structure. Because the support would no longer be adjusted for inflation, costs savings would be realized beginning in fiscal year 1983. However, some observers opposed this proposal on the grounds that it would remove the current per-meal reimbursement entitlement and would negatively affect those States that have successfully drawn down the maximum commodities reimbursement amount. Because the current reimbursement procedure was based on the number of meals served, the more meals served, the greater the support received from USDA. Under the proposed change, there would be a fixed amount of funds available regardless of the number of meals served. In addition, while the current law adjusted the per-meal reimbursement amount each year to reflect inflation, the proposal would have provided for a fixed dollar amount with no automatic inflation adjustment. Finally, the addition of a fixed amount of funds to the total funds allocated to the State and distributed under the title III formula increased the amount of required non-Federal matching funds. It has been suggested that the additional matching amount to be generated by States might place an additional burden on fiscally deficient areas.

Although the proposal to alter the USDA commodities support provisions in current law was contained in S. 1086, H.R. 3046 did not make any changes in the current provisions.

D. COMMITTEE ACTIVITIES DURING REAUTHORIZATION

The Senate Special Committee on Aging was actively involved during the reauthorization of the Older Americans Act. Early, in the consideration process, Chairman John Heinz submitted detailed testimony to the Committee on Labor and Human Resources, which had primary responsibility for the legislation. In his statement to the Subcommittee on Aging, Family and Human Services, Senator Heinz recommended that changes in the act should "set the stage for increased local decisionmaking and expanded control of older people in making the Older Americans Act work for them." In addition, Senator Heinz issued seven specific recommendations designed to increase local flexibility, improve the efficiency of service programs under the act, and increase the participation of older people in the operation of the programs.

On April 27, 1981, the Special Committee on Aging held an oversight hearing on the Older Americans Act. In his opening statement at that hearing, Chairman Heinz again called for specific measures to increase the act's flexibility, improve employment opportunities for older persons, and aid the effectiveness of the act by consolidating appropriations under the title III program. Senator Lawton Chiles, the ranking minority member of the committee, called attention to the need to continue to insure that agencies which serve older Americans are able to participate fully in planning and coordination of a complete range of education services to older people. Senator Chiles indicated that as more and more older persons become interested in work and volunteer activities, "agencies serving the elderly are expanding their concepts of education and training to include very practical programs of self-help."

At the hearing, the committee heard from a number of distinguished witnesses who made several observations and recommendations on the act's reauthorization. These included: David Rust, Department of Health and Human Services; Dr. Robert Hudson, an associate professor at Fordham University; William McCormick, U.S. General Accounting Office; Gorham Black, secretary of the Pennsylvania Department of Aging; Ray Scott, director of the Arkansas Department of Health and Human Services; Frank Casula, councilman for Prince

Georges County, Md.; Brother William Geenan, director of Senior Friendship Services of Sarasota, Fla.; and Janet Zobel of the National Urban League. Based on the results of this hearing, several additional recommendations were sent to the authorizing committee for consideration.

On November 2, 1981, S. 1086 was brought to the Senate floor for consideration. At that time, five amendments to the reauthorization bill were offered by members of the Special Committee on Aging, and all were agreed to by the Senate. Chairman John Heinz introduced an amendment to allow funding for crime prevention and victim assistance programs under title III. Ranking minority member Lawton Chiles offered an amendment to title V, the senior community service employment program, that would create experimental projects designed to assure second-career training and placement of eligible older persons with private business concerns. Senator Larry Pressler introduced an amendment to provide rural elderly transportation demonstration projects under title IV. Two amendments were offered by Senator Christopher Dodd. The first reinstated the utilities and home heating cost demonstration projects under title IV, and the second authorized weatherization activities as part of the "community services" placement for title V enrollees.

During final passage of the conference report on S. 1086 on December 11, several committee members spoke in support of the final conference agreement. These included Senators Heinz, Chiles, Grassley, and Pryor.

E. OLDER AMERICANS ACT FUNDING

The 1981 amendments to the Older Americans Act (Public Law 97–115) provided for the following authorization levels from fiscal year 1982 through fiscal year 1984:

TABLE 1.—OLDER AMERICANS ACT AUTHORIZATIONS, FISCAL YEARS 1982, 1983, 1984[1]

[In millions]

	1982	1983	1984
Title II: Federal Council on Aging	$0.200	$0.214	$0.229
Title III:			
Supportive services and senior centers	306.000	327.400	350.300
Congregate nutrition	319.000	341.400	365.300
Home-delivered nutrition	60.000	64.200	68.700
Title IV: Research, training, and demonstrations	23.200	24.800	26.600
Title V: Senior community services employment	277.100	296.500	317.300
USDA appropriation	93.200	100.000	105.000

[1] Authorization levels are set as ceilings to the various titles under the act. Actual funding levels may differ depending on actions by the appropriations committees.

Fiscal year 1981 appropriations for OAA programs provided an increase of $67.7 million or an approximate 8 percent increase over the 1980 funding level. Aspects of the fiscal year 1981 funding levels include:

—Title III–B, social services: A $6.6-million increase over the fiscal year 1980 level of funding.

—Title III–C, nutrition services: A $33-million increase over fiscal year 1980 level of funding.

—Title IV, training, research and discretionary programs: A $14.6-million decrease from the fiscal year 1980 level of funding.

—Title V, senior community service employment: A $42.1-million increase over fiscal year 1980 level of funding.

Table 2.—*Fiscal year 1981 funding levels*

	Millions
Title II:	
National Clearinghouse	$1. 80
Federal Council on Aging	. 481
Title III:	
State administration	22. 67
Social services	251. 47
Congregate meals	295. 00
Home-delivered meals	55. 00
Title IV: Training, research, and discretionary projects	40. 50
Title V: Community services employment	277. 10
Title VI: Grants to Indian tribes	6. 00
Total	950. 10

Fiscal year 1982 funding for OAA programs will be provided under the authority of a continuing resolution (Public Law 97–92) until March 31, 1982. The House Appropriations Committee on September 23, 1981, reported a fiscal year 1982 spending bill (H.R. 4560) which included funding for OAA programs. In similar action, the Senate Appropriations Committee reported the same bill on November 9, 1981, at slightly lower levels than the House measure. Floor action on the Senate reported bill was delayed. Therefore, a continuing resolution to guarantee Federal funding for a number of Federal agencies and programs was required.

OAA programs are currently operating at an amount set in the continuing resolution. Expenditures for the Older Americans Act programs, and a number of other programs, was set at the fiscal year 1981 level or the level specified in the appropriations bill reported by either the House or Senate Appropriations Committees, whichever is lower. In addition, since President Reagan had vetoed an earlier spending measure which he termed too costly, Congress agreed to an across-the-board 4-percent cut from program totals. The administration was given the decision as to which line items within budget categories would be cut. Even though the measure called for a 4-percent cut, the administration had the discretion to make cuts of up to 6 percent within some line items and none in others.

In the final analysis, OAA programs suffered a 4.3-percent cut in the continuing resolution. The base figures used in the continuing resolution for OAA were the fiscal year 1981 level of funding.

The fiscal year 1982 funding level, annualized, is as follows:

Table 3.—*Fiscal year 1982 appropriations level (annualized) under the continuing resolution (Public Law 97–92)*

	Millions
Title II:	
National Clearinghouse	$1. 7
Federal Council on Aging	. 2
Title III:	
State administration	21. 7
Social services	240. 9
Congregate meals	286. 7
Home-delivered meals	57. 4
Title IV: Training, research, and discretionary projects	22. 2
Title V: Community services employment	277. 1
Title VI: Grants to Indian Tribes	5. 7

TABLE 4.—OLDER AMERICANS ACT APPROPRIATIONS, FISCAL YEARS 1966–82

[In thousands of dollars]

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982 [10]
Title II:																	
National Information and Resource Clearinghouse	(2)	(2)	(2)	(2)	(2)	(2)	(2)	None	None	None	None	None	2,000	2,000	2,000	1,800	1,721
Federal Council on the Aging	(2)	(2)	(2)	(2)	(2)	(2)	(2)	None	None	0.575	0.0575	0.575	.450	.450	.450	.481	.191
Title III:																	
Area planning [3] and social services	5,000	6,000	10,550	16,000	9,000	9,000	30,000	68,000	68,000	82,000	93,000	122,000	193,000	196,970	246,970	251,473	240,869
State agency activities [3]	None	None	None	None	4,000	4,000	5,000	12,000	12,000	15,000	17,035	17,000	19,000	22,500	22,500	22,675	21,673
Multipurpose senior centers	(2)	(2)	(2)	(2)	(2)	(2)	(2)	None	None	None	None	[4] 20,000	[4] 40,000	(5)	(5)	(5)	(5)
Nutrition program	(2)	(2)	(2)	(2)	(2)	(2)	(2)	100,000	104,800	125,000	[6] 125,000	[6] 203,525	250,000	277,046	320,000	350,000	344,099
Title IV:																	
Training	.500	1,403	2,245	2,845	2,610	1,000	8,000	8,000	10,000	8,000	10,000	14,200	17,000	17,000	17,000	[9] 40,500	[9] 22,175
Research	1,000	1,507	4,155	4,185	3,250	2,800	9,000	9,000	7,000	7,000	8,000	8,500	8,500	8,500	8,500		
Model projects, special projects	(2)	(2)	(2)	(2)	None	None	9,700	16,000	16,000	8,000	13,800	12,000	15,000	15,000	25,000		
Mortgage insurance and interest subsidies for senior centers	(2)	(2)	(2)	(2)	(2)	(2)	(2)	None	None	None	None	[4] None	None	None	None		
Multidisciplinary centers of gerontology	(2)	(2)	(2)	(2)	(2)	(2)	(2)	None	None	None	1,000	3,800	3,800	3,800	3,800		
Title V: Community service employment for older Americans [7]	(2)	(2)	(2)	(2)	(2)	(2)	(2)	None	10,000	42,000	55,900	90,600	200,900	200,900	266,900	277,100	277,100
Title VI: Grants for Indian tribes	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	(2)	None	6,000	6,000	5,735
Foster Grandparent program	(8)	(8)	(2)	8,968	9,250	10,000	25,000	25,000	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Retired senior volunteer program	(2)	(2)	(2)	(2)	None	.500	15,000	15,000	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)
Total	6,500	8,910	16,950	31,998	28,110	27,300	101,700	253,000	227,800	287,575	324,310	492,200	749,650	744,166	919,120	950,029	913,563

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[1] The title numbers are based on the 1978 amendments.

[2] Not authorized.

[3] Between 1965 and 1970, title III funds were allocated to States for social services. There was no appropriation for State or area planning activities. Beginning in 1970 funds were appropriated for statewide planning. In 1973 funds were appropriated for area planning and social services.

[4] The appropriation covered grants, mortgage insurance and annual interest subsidies, but funds were allocated for grants only.

[5] Multipurpose senior centers are funded under the title III area planning and social services appropriation.

[6] Congressionally mandated operating levels made possible through forward funding were $150,000,000 for fiscal year 1975 and $187,500,000 for fiscal year 1976. Program operating level for fiscal year 1977 was $225,000,000.

[7] Funding is available on an annual basis beginning July 1 and ending the following June 30.

[8] The Foster Grandparent program was funded under a general poverty program through the Economic Opportunity Act from 1977 through 1968. This program was given a statutory basis under the Older Americans Act of 1969. In addition, the retired senior volunteer program was created under the 1979 amendments. Legislative authority under the Older Americans Act was repealed in 1973 and both these programs were reauthorized under the Domestic Volunteer Service Act of 1973 (Public Law 93–113).

[9] Includes funding for training, research, discretionary, and multidisciplinary centers for gerontology.

[10] Annualized figures based on the continuing resolution (Public Law 97–92).

F. THE CURRENT FRAMEWORK

The Older Americans Act as amended in 1981 contains six titles: I—Declaration of Objectives: Definitions; II—Administration on Aging; III—Grants for State and Community Programs on Aging; IV—Training, Research, and Discretionary Projects and Programs; V—Community Service Employment for Older Americans; and VI—Grants for Indian Tribes. Several of the major provisions of the act are described below.

TITLE I—DECLARATION OF OBJECTIVES

The Older Americans Act is directed toward giving older persons opportunities for participation in the benefits of this country. Ten broad objectives for older Americans are outlined in the act. The goals are as follows: (1) An adequate income, (2) physical and mental health, (3) suitable housing, (4) full restorative services for those who require institutional care, (5) employment without age discrimination, (6) retirement in health, honor, and dignity, (7) participation in civic, cultural, and recreational activities (8) efficient community services, (9) benefits from research designed to sustain and improve health and happiness, and (10) freedom to plan and manage their lives.

TITLE II—THE ADMINISTRATION ON AGING

The Administration on Aging is established within the Office of the Secretary of Health and Human Services as the principal agency for carrying out the purposes of the Older Americans Act and administering most of the grant programs authorized under the act. The agency is directed by a U.S. Commissioner on Aging who is appointed by the President and confirmed by the Senate, and who is responsible directly to the Office of the Secretary. From an organizational perspective, the Administration on Aging is located within the Office of Human Development Services. Congress intended that the Administration on Aging was to have high visibility in the executive branch of Government, and serve as an effective advocate on all Federal activities and matters related to the field of aging.

The organizational placement of AoA within OHDS has been a matter of continued interest to the Congress. Since the 1973 amendments, the language regarding the placement of AoA and the authority of the Commissioner has essentially remained unchanged. A Senate report which accompanied the 1978 amendments stated:

> The committee believes that there is some benefit in having the Commissioner on Aging within OHDS for purposes of coordinating programs under the Administration on Aging with those programs administered by the Public Services Administration, the Developmental Disabilities Office, the Office of Child Development, the Office of Youth Development, and the Rehabilitation Services Administration. The committee believes that bringing these programs together fosters increased coordination and cooperation, and gives the Commissioner on Aging greater insight into overall policy

> development and program interface. Thus, while no new section with respect to AoA's placement in OHDS was taken in connection with this bill, it is a matter of continuing interest to the committee.

During debate on the 1981 amendments, the House receded from its initial position that would have required that the Commissioner on Aging be directly responsible to the Secretary of Health and Human Services rather than to the Office of the Secretary.

Title II of the act is primarily structural, in that it is the part of the act which discusses the establishment of the functional units necessary to implement of the act. Under the 1981 amendments, the functional units which are continued include the Administration on Aging and the Federal Council on Aging. The National Information and Resource Clearinghouse for Aging, a component of AoA, was deleted.

TITLE III—GRANTS FOR STATE AND COMMUNITY PROGRAMS ON AGING

Title III authorizes grants to State agencies on aging for developing a comprehensive and coordinated delivery system of supportive social services and senior centers, congregate nutrition services, and home-delivery nutrition services. To qualify for funds, the State agency must divide the State into separate geographic areas, known as planning and service areas (PSA's), and establish area agencies on aging for developing a comparable delivery system within the PSA's. As part of the mandated delivery system, area agencies on aging coordinate existing resources and foster the expansion and development of community services for the elderly.

The title III organizational structure is intended to form a "network on aging" linking the Administration on Aging, State and area agencies on aging, other public and private agencies, and local service providers. This network is intended to help older persons in need of support care remain independently in their homes. It is also intended to provide a continuum of services as well as social and economic opportunities for older persons.

Title III funds are distributed to the States according to a congressionally mandated formula based on the population of older people in each State. In turn, States allocate service funds to area agencies using an intrastate funding formula which must be approved by AoA. Through a structured planning process, State and area agencies are directed to provide greater leadership in identifying gaps and weaknesses in the delivery of services as well as foster the expansion of services for the elderly.

Title III–B, supportive services and senior centers, funds are used in accordance with a State approved area plan. The act requires the development of a number of specified services if not otherwise available in the community. As a basis for mandated services, the 1978 amendments required that States spend at least 50 percent of their funds for social services on three categories—access service (transportation, outreach, and information and referral); in-home services (homemaker, home health aid, visiting services, telephone assurance, and choremaintenance); and legal services. It was required that some funds be expended in each category of service, but the percentage of funds targeted for a specific category was a matter of local determination. The 1981 amendments modified the requirement mandating a 50-percent targeting of funds and simply requires area agencies to expend "an adequate proportion" for such services.

In addition to the priority services, other allowable services under the act include: Ombudsman services; counseling and service management; health screening and other health-related services; recreational and educational-related activities; services to encourage the employment of older workers, including job counseling, job development and placement; crime prevention and victim assistance programs; and, a variety of voluntary service opportunities.

Under title III–C, grants are awarded through State and area agencies on aging to public and private sponsors for establishing and operating both congregate and home-delivered meal projects for persons age 60 and older and their spouses of any age. Additionally, the 1981 amendments allow congregate nutrition services to persons under 60 years if those individuals are handicapped or disabled and if they reside in a housing facility which is occupied primarily by the elderly at which congregate nutrition services are provided. Participants in these programs may pay for meals based on what they feel they can afford. Income derived from these donations can be used by project sponsors to increase the number of meals served.

The 1981 amendments continue to provide for separate authorizations for congregate and home-delivered meals. The financial support for congregate nutrition was $295 million for fiscal year 1981; for home-delivered nutrition the level was $55 million for the same fiscal year.

During the 1981 reauthorization, considerable debate was focused on the issue of total consolidation of the separate authorizations for programs under title III. It was argued that this consolidation would provide greater flexibility to States and area agencies on aging to select the appropriate mix of services for meeting the needs of their constituencies. Appropriations for parts B (supportive services) and part C (nutrition) have grown unevenly over the past few years, with most increases going to the part C. Although the conference agreement on this issue retained separate funding authorizations for parts B and C, the new amendments permit States to transfer up to 20 percent of their moneys between social services and nutrition allotments.

Nutrition services evolved from nutrition demonstration projects first funded under the Older Americans Act Amendments of 1968, to develop techniques for improving diets, fostering social interaction, and facilitating the delivery of social services for the elderly. The meals are intended to improve the health of program participants, and to attract isolated older persons to a place where services and opportunities are available.

Congregate nutrition services are available at least once each day, 5 days per week along, with outreach, transportation, counseling, recreation, nutrition, education, information and referral, and other support services. In many cases, congregate "meals sites" have evolved into senior centers which act as community focal points for the needs of older persons.

Home-delivered nutrition programs are provided on a determination of need. Home-delivered meals are served at least once per day to individuals homebound by reason of illness, an incapacitating disability, or an extreme transportation problem.

Under the 1981 amendments, the U.S. Department of Agriculture receives continued authority to provide surplus commodities or cash-in-lieu of commodities to supplement the cost of providing meals under title III. The USDA reimbursement had been provided on a per meal basis in an amount adjusted for inflation to reflect changes in the Consumer Price Index for food away from home. Under the amended act, specific authorizations for the commodities program were capped at $93.2 million, $100 million, and $105 million, for fiscal years 1982, 1983, and 1984, respectively. Further, provisions were included that in any fiscal year in which the per-meal reimbursement authorized exceeds the authorization for the commodities program for that fiscal year, the Secretary shall reduce the per-meal reimbursement, or provide for such sums as may be necessary to maintain the level of reimbursement for the number of meals served under this program in fiscal year 1981.

TITLE IV—TRAINING, RESEARCH, AND DISCRETIONARY PROJECTS AND PROGRAMS

Title IV of the Older Americans Act is authorized to support efforts in training, education, research, demonstrations, and evaluation which adds knowledge to improve program effectiveness and efficiency. The major activities undertaken in each of the title IV program areas are designed to develop and disseminate information to assist decisionmakers and service providers in addressing issues concerning older persons.

The 1978 amendments to the act provided authority for the Commissioner on Aging to make grants to States or other public or nonprofit private agencies, organizations, or institutions in four major areas which include: Training, research, discretionary projects, and gerontological centers. The Administration on Aging has aggregated these areas into four principal subgroupings. These subgroupings include: (1) The social integration of older persons through policy development and advocacy; (2) serving those in need; (3) long-term care; and (4) improving capacity through the application of knowledge.

During fiscal year 1981, a number of activities were carried out under the auspice of policy development and advocacy. The AoA conducted national policy review and development conferences in the area of national policy significance. The objectives were to review and integrate research findings, to review current practice, to disseminate information, to stimulate the best practice replication in the public and private sector, and to provide new policy and program options. In 1981, AoA funded 23 conferences in such areas as abuse, older women, energy, housing, and pre-1981 White House Conference activities.

The AoA has also funded national aging policy study centers, primarily based in academic institutions, to provide exemplary interdisciplinary study approaches to six policy areas. These included:

—Income maintenance, Brandeis University.

—Housing and living arrangements, University of Michigan.

—Employment and retirement, University of Southern California.

—Education and leisure, National Council on Aging.

—Older women, University of Maryland.

—Health care for the aging, University of California at San Francisco.

AoA's research, conference, and policy development activities are interrelated and coordinated. Research is directed at knowledge development. The policy conferences utilize research findings as one source of information for policy and program formulation and knowledge dissemination.

The 1978 amendments required States and area agencies to establish legal services, ombudsman, and advocacy programs. AoA promulgated a series of regulations and program instructions on these areas, and used discretionary resources to assist in implementing the requirements. Discretionary grants to State agencies on aging for advocacy assistance during 1981 continued to give priority in developing long-term care ombudsman programs and improving legal services for the elderly. This support helped maximize the relationship of the ombudsman and legal services programs and improve their coordination. It also assured backup for the ombudsman program and assisted in dealing with the problems of the institutionalized elderly.

In the category, "Serving Those in Need," AoA funded projects in the following areas: (1) Systems improvement; (2) improving community services; (3) strengthening family supports; (4) reaching out to minorities; and (5) needs of special populations.

Under systems improvements, AoA funded a number of projects to develop and disseminate models of information system designs to State and area agencies. It also awarded research and model project grants to support efforts aimed at improving coordination between area agencies on aging and community mental health centers, area agencies and health system agencies, and Older Americans Act and title XX services.

In the area of "improving community services," AoA utilized its discretionary and research funds to attempt to improve the operations of both State and area agencies on aging in a number of significant service areas. These included: Research projects in case management, developing information on assisting older people in emergency and crisis situations, research projects to improve the effectiveness of transportation services, research directed at home-care and the elderly, developing models for senior center operation, developing models for facilitating the relocation of nursing home patients.

Under "family supports," AoA has funded five research and eight model projects directly related to the problems associated with assisting the family as the primary care giver. Research is being conducted on older people as self-help care givers, measuring intra-family transfers and the impact of formal organizations on family networks. In addition, a model project has been designed to develop and disseminate a training module to assist adult children to be better care givers.

AoA has initiated major efforts to "improve services to minorities." These have included the awarding of title VI grants for Indian tribes, conducting a national competition to permit a limited number of area agencies to implement special affirmative action programs in an effort to improve minority services, and projects specifically targeted to Hispanics. AoA has also entered into cooperative agreements with four national minority organizations that work directly with minority communities.

Under the category of "needs of special populations," a total of five State and area agencies were awarded model project grants to demonstrate improved methods for service delivery in rural areas. A research grant to study adaptive techniques to compensate for sight impairment in the elderly, and several grants to develop models to meet the needs of abused older persons were awarded. Additionally, several community hospice demonstration projects were supported.

In the area of long-term care, AoA continued its efforts and support for the development of comprehensive coordinated systems of community long-term care. This included the funding of multidisciplinary centers and geriatric fellowship programs to improve staff resources development, intensify and spread technology development, and increase basic and applied research in long-term care. Additionally, in cooperation with the Health Care Financing Administration, the AoA has continued to support the national channeling demonstration program, and funded 15 long-term care State systems development grants that are geared to promote community-based planning and service capacities to meet the needs of chronically ill and functionally impaired older persons.

Finally, under the category "improving capacity through the application of knowledge," AoA's research efforts have been directed towards developing improved knowledge for policy and practice. Gerontological career preparation programs have been designed to support training for persons who are employed or preparing for employment in the field of aging. A national continuing education and training program has focused resources to assist in the redesign of curricula and approaches to the delivery of education and training for personnel working with older people. The regional education and training program was continued to foster a more coordinated approach to education and training by promoting greater understanding and linkage among higher education institutions, State and area agencies on aging, and service providers. Additionally, AoA has continued a dissemination and utilization strategy aimed at both the broad base of gerontological literature and those products and reports funded by AoA's discretionary programs.

Budget cuts during fiscal year 1981 had the effect of reducing title IV funding. In view of the reduced authorization levels, the 1981 amendements consolidated the separate authorizations for research, training, discretionary projects, and gerontology centers as follows:

Part A—education and training, and part B—research, demonstrations, and other activities. Under the new law, emphasis is placed in such areas as: Meeting the special housing needs of older individuals, meeting the special health care needs of the elderly, improving the coordination of supportive services for the homebound elderly, and demonstrations targeted at relieving older persons of the excessive burdens of high utility service and home heating costs.

TITLE V—SENIOR COMMUNITY SERVICE EMPLOYMENT PROGRAM

The senior community service employment program (SCSEP) was established within the Department of Labor for creating part time public service employment positions for persons age 55 and older with incomes of not more than 125 percent of the poverty level. The program is geared to creating employment positions that contribute to the general welfare of the community, such as aides in hospitals, schools, libraries, social service agencies, etc. Program participants are paid at least the Federal minimum wage, the State or local minimum wage, or the prevailing wage in the community for similar occupations, whichever is highest. Additionally, project sponsors are required to provide training opportunities for participants when necessary to maximize their skills and talents.

The Department of Labor administers the title V community service employment program for older Americans. The program is modeled after the operation mainstream program which was first funded in 1965 under the Economic Opportunity Act. Operation mainstream authorized jobs for poor and chronically unemployed primarily in rural areas. The Department of Labor enters into contractual agreements with organizations that sponsor employment projects for older workers. Under the 1973 amendments, funds were apportioned to the States based on the States' elderly population. The 1975 amendments revised the formula to allocate funds more equitably to States with lower per capita income. The 1978 amendments fostered intrastate coordination between national contractors and State agencies on aging and increased the proportion of funding to State governments so that States could take a more active role in creating public service employment for older workers. Employment programs are located in universities, private nonprofit agencies, city and county governments, and Indian tribal organizations, for creating jobs.

In fiscal year 1980, the average number of slots for persons in training numbered 52,000, and a 54,200 level is anticipated for fiscal years 1981 and 1982. In fiscal year 1981, 80,000 persons participated in the program, and 84,000 persons ~~are expected~~ to participate in fiscal year 1982.

The SCSEP program is managed by State agencies on aging and the following contractors:

(1) Green Thumb, Inc., Washington, D.C., an agency of the National Farmers' Union.

(2) National Council on the Aging, Washington, D.C.

(3) National Council of Senior Citizens, Washington, D.C.

(4) National Retired Teachers Association/American Association of Retired Persons, Washington, D.C.

(5) U.S. Department of Agriculture, Forest Service, Washington, D.C.

(6) National Center of Black Aged, Washington, D.C.

(7) National Association for Spanish Speaking Elderly, Los Angeles, Calif.

(8) National Urban League, New York, N.Y.

Under the program, the Federal share of project costs may be up to 90 percent (100 percent in disaster or economically depressed areas). The Secretary of Labor must reserve from the annual appropriation funds sufficient to maintain the national contractor's fiscal year 1978 level of activity. The remainder is apportioned among the States based on a formula which takes into account the State's proportionate share of the Nation's population age 55 and older, and the State's per capita income with a minimum allotted to each State. These remaining funds that exceed the fiscal year 1978 dollar amount are apportioned so that State governments receive 55 percent and national contractors receive 45 percent of the dollar amount. Under the 1981 amendments, these 45 percent of excess funds which go to the national contractors within States must be distributed in an equitable manner among the various States.

TABLE 5.—SCSEP FOR 1981-82 PROGRAM YEAR—STATE ALLOCATIONS

State	Green Thumb	NCOA	NCSC	NRTA/AARP	Forest Service	NCBA	NAPPM	Urban League	Governor's share
Alabama	$582, 628	$353, 796	$2, 107, 196	0	$268, 595	$482, 785	0	0	$1, 223, 000
Alaska	0	0	0	0	0	0	0	0	1, 160, 000
Arizona	124, 614	1, 529, 160	0	0	434, 266	0	0	0	689, 000
Arkansas	3, 097, 232	0	0	$875, 287	386, 481	0	0	0	819, 000
California	2, 280, 441	3, 818, 851	4, 495, 196	3, 357, 458	2, 049, 137	0	$789, 917	0	4, 997, 000
Colorado	538, 267	0	698, 182	346, 299	405, 892	0	0	0	586, 000
Connecticut	209, 451	0	1, 986, 457	0	0	0	0	$361, 092	759, 000
Delaware	0	0	0	0	0	0	0	0	1. 150, 000
District of Columbia	730, 932	0	511, 683	30, 385	0	0	0	0	316, 000
Florida	3, 140, 000	366, 000	1, 505, 500	4, 725, 038	470, 300	403, 962	414, 200	0	3, 397, 000
Georgia	1, 145, 697	512, 570	0	2, 040, 663	411, 250	0	0	304, 820	1, 373, 000
Guam	0	0	0	0	0	0	0	0	555, 750
Hawaii	0	0	0	0	0	0	0	0	1, 160, 000
Idaho	195, 043	0	0	236, 957	527, 000	0	0	0	315, 000
Illinois	3, 996, 088	0	2, 397, 176	1, 137, 516	220, 152	0	291, 335	307, 733	2, 652, 000
Indiana	3, 385, 454	0	1, 666, 205	376, 540	82, 717	0	0	310, 084	1, 423, 000
Iowa	1, 249, 161	0	577, 653	885, 186	0	0	0	0	874, 000
Kansas	1, 774, 290	0	0	0	0	0	386, 710	0	672, 000
Kentucky	1, 801, 175	837, 930	0	714, 426	342, 030	448, 439	0	0	1, 100, 000
Louisiana	1, 080, 778	477, 728	589, 861	606, 495	347, 600	0	310, 538	0	1, 081, 000
Maine	175, 276	978, 896	0	180, 407	44, 421	0	0	0	384, 000
Maryland	353, 379	0	2, 476, 621	0	0	0	0	0	943, 000
Massachusetts	915, 255	0	3, 580, 642	404, 447	0	0	0	330, 656	1, 662, 000
Michigan	3, 120, 730	0	2, 250, 781	969, 458	466, 031	0	0	0	2, 060, 000
Minnesota	3, 649, 562	0	1, 028, 138	0	600, 778	0	0	530, 522	1, 076, 000
Mississippi	479, 207	0	951, 785	0	670, 581	482, 427	0	0	810, 000
Missouri	3, 311, 268	275, 964	396, 500	948, 553	527, 715	0	0	0	1, 533, 000
Montana	942, 084	0	0	279, 416	200, 500	0	0	0	316, 000
Nebraska	1, 279, 965	0	0	396, 238	24, 797	0	0	0	480, 000
Nevada	210, 120	0	0	573, 200	175, 680	0	0	0	315, 000
New Hampshire	360, 407	0	0	350, 731	185, 862	0	0	0	316, 000

New Jersey	3, 599, 988	1, 427, 886	1, 326, 897	0	0	0	0	402, 229	1, 867, 000
New Mexico	0	0	0	427, 545	548, 455	0	0	0	320, 000
New York	5, 243, 671	3, 880, 070	3, 550, 174	2, 322, 003	0	0	0	647, 082	4, 944, 000
North Carolina	837, 220	453, 106	1, 643, 882	0	1, 630, 960	544, 832	0	0	1, 645, 000
North Dakota	1, 147, 518	0	0	175, 646	26, 836	0	0	0	315, 000
Ohio	2, 626, 387	1, 074, 000	2, 301, 000	2, 520, 000	78, 034	0	0	452, 579	2, 983, 000
Oklahoma	2, 500, 423	0	0	410, 173	101, 159	0	320, 245	0	920, 000
Oregon	1, 616, 834	305, 357	0	534, 960	768, 849	0	0	0	698, 000
Pennsylvania	5, 033, 660	2, 107, 338	2, 712, 300	1, 238, 131	315, 411	0	0	429, 160	3, 745, 000
Puerto Rico	1, 027, 188	0	0	1, 090, 408	105, 404	0	0	0	729, 000
Rhode Island	0	0	382, 252	756, 748	0	0	0	0	316, 000
South Carolina	850, 963	256, 986	614, 492	518, 069	295, 490	0	0	0	824, 000
South Dakota	1, 381, 802	0	0	195, 803	57, 395	0	0	0	315, 000
Tennessee	1, 373, 970	496, 025	1, 279, 102	0	490, 500	474, 403	0	0	1, 394, 000
Texas	4, 863, 293	1, 658, 323	1, 335, 113	2, 336, 665	130, 346	0	328, 260	0	3, 202, 000
Utah	772, 029	0	0	0	613, 971	0	0	0	316, 000
Vermont	104, 054	970, 555	0	0	115, 391	0	0	0	315, 000
Virgin Islands	0	0	0	0	0	0	0	0	555, 750
Virginia	2, 357, 611	543, 745	0	957, 592	392, 968	0	0	310, 084	1, 290, 000
Washington	560, 835	0	574, 645	1, 043, 645	632, 414	0	0	0	911, 000
West Virginia	232, 101	1, 174, 103	721, 970	0	341, 816	0	0	0	669, 000
Wisconsin	3, 342, 595	0	1, 827, 820	0	476, 450	0	0	310, 135	1, 346, 000
Wyoming	512, 815	0	0	193, 265	252, 920	0	0	0	315, 000
American Samoa	0	0	0	0	0	0	0	0	555, 750
Pacific Islands	0	0	0	0	0	0	0	0	366, 750
National total	80, 113, 821	23, 498, 389	45, 489, 233	34, 154, 814	16, 216, 514	2, 836, 848	2, 841, 205	4, 696, 176	67, 253, 000

Under the 1981 amendments a new change involves the emphasis on private sector employment of older workers. Public Law 97–115 requires the Secretary of Labor to conduct experimental projects designed to assure second-career training and placement of eligible individuals in employment opportunities with private business concerns. The Secretary is required to issue criteria designed to assure that these experimental projects will involve different kinds of work modes, such as flex-time, job sharing, and other arrangements relating to reduced physical exertion of the elderly. Additionally, the Secretary is required to emphasize projects which involve second career and job placement in growth industries and in jobs reflecting new technological skills. The new law requires that the Secretary submit a final report to the Congress on an evaluation conducted on this project no later than February 1, 1984.

TABLE 6.—SCSEP FOR 1981–82 PROGRAM YEAR

[Total State-by-State allocations and authorized participant levels]

State	Allocation	Number of participants
Alabama	$5, 018, 000	982
Alaska	1, 160, 000	227
Arizona	2, 777, 000	543
Arkansas	5, 178, 000	1, 013
California	21, 788, 000	4, 263
Colorado	2, 575, 000	504
Connecticut	3, 316, 000	648
Delaware	1, 160, 000	227
District of Columbia	1, 589, 000	311
Florida	14, 422, 000	2, 822
Georgia	5, 788, 000	1, 133
Guam	555, 750	109
Hawaii	1, 160, 000	227
Idaho	1, 274, 000	250
Illinois	11, 002, 000	2, 153
Indiana	7, 244, 000	1, 417
Iowa	3, 586, 000	702
Kansas	2, 833, 000	554
Kentucky	5, 247, 000	1, 026
Louisiana	4, 494, 000	879
Maine	1, 763, 000	345
Maryland	3, 773, 000	738
Massachusetts	6, 893, 000	1, 347
Michigan	8, 867, 000	1, 735
Minnesota	6, 885, 000	1, 347
Mississippi	3, 394, 000	664
Missouri	6, 993, 000	1, 368
Montana	1, 738, 000	340
Nebraska	2, 181, 000	427
Nevada	1, 274, 000	250
New Hampshire	$1, 213, 000	237
New Jersey	8, 624, 000	1, 687
New Mexico	1, 296, 000	254
New York	20, 587, 000	4, 028
North Carolina	6, 755, 000	1, 322
North Dakota	1, 665, 00.	326
Ohio	12, 035, 000	2, 355
Oklahoma	4, 252, 000	832
Oregon	3, 924, 000	767
Pennsylvania	15, 578, 000	3, 048
Puerto Rico	2, 952, 000	578
Rhode Island	1, 455, 000	285
South Carolina	3, 360, 000	657
South Dakota	1, 950, 000	382
Tennessee	5, 508, 000	1, 078
Texas	13, 854, 000	2, 710
Utah	1, 702, 000	333
Vermont	1, 505, 000	295
Virginia	5, 852, 000	1, 145
Virgin Islands	555, 750	109
Washington	3, 722, 000	728
West Virginia	3, 139, 000	714
Wisconsin	7, 303, 000	1, 428
Wyoming	1, 274, 000	249
American Samoa	555, 750	109
Trust territory	366, 750	72
Northern Marianas	189, 000	37
Total	277, 100, 000	54, 216

TITLE VI—GRANTS TO INDIAN TRIBES

Under Public Law 97–115, title VI is reauthorized and continues the purpose of promoting the delivery of social and nutritional services for older Indians comparable to services provided for others under the act's title III State and community programs on aging. Grants are authorized to tribal organizations representing 75 or more Indians age 60 and older for paying all of the costs of services. To qualify for funds, tribal organizations are required to submit to the Commissioner on Aging for approval a plan which provides for:

—Evaluating the need for social and nutritional services among older Indians represented by the tribal organization.

—Social services, nutritional services, legal services, and nursing home ombudsman services consistent with requirements set forth under title III of the Act.
—Information and referral services.
—Periodic evaluation of activities and projects carried out under such a plan.
—Employment of older Indians for full- or part-time staff positions wherever feasible.

Tribal organizations have the option of receiving services under the title III network of State and area agencies on aging or applying for funding directly to the Commissioner on Aging.

From a historical perspective, it was recognized that older Indians generally have not received services and benefits equivalent to those provided other persons under the title III program of grants for State and community programs. With the passage of the 1975 amendments, the Commissioner was authorized to allow Indian tribes to bypass the traditional title III State and area agency funding mechanism and apply directly to the Commissioner for funds necessary to establish a social services program.

This authority, however, was never exercised. Congress felt the title's shortcomings were related to the cumbersome determination process which required complicated grant applications and judgments by many levels of government before a decision could be rendered. Moreover, the authority provided in this title failed to recognize "tribal sovereign status." Representatives of Indian groups testified that tribal organizations, not the Commissioner, should determine the best funding source for establishing a social services program.

The 1978 amendments, therefore, revised the 1975 law to provide a separate title and funding authority for social and nutritional services for federally recognized tribal organizations.

The 1981 amendments did not change the law with the exception of nutritional service delivery. The new statutes provide that in those cases where the need for nutritional services for older Indians represented by the tribal orgainzation is already met from other sources, the tribal organization may use the funds otherwise required to be expended on nutrition for other supportive services.

Chapter 16

SOCIAL SERVICES BLOCK GRANT (TITLE XX)

OVERVIEW

Title XX of the Social Security Act (Public Law 93–647) is an approximately $3 billion Federal program that reimburses States for costs incurred in providing social services to low-income people. The program has essentially operated as a block grant to the States, with broad Federal guidelines and maximum decisionmaking authority at the State level.

Title XX consolidated and replaced the authorizations for services to welfare recipients previously found in titles IV and VI of the act. Although title XX did not create a new program, it did attempt to make significant changes in the way social services are provided to low-income people. The law requires at least half of each State's Federal allotment to be used for services to AFDC, SSI, or medicaid recipients. However, the remaining funds may be used to provide services to anyone whose income does not exceed 115 percent of the State's median income. Fees must be charged to individuals or families with incomes between 80 percent and 115 percent of the State's median, and fees may be charged to people with incomes below 80 percent. Three types of services—information and referral, family planning, and protective services—may be provided to anyone regardless of income.

In addition to broadening the number of people eligible for social services, title XX established five broad goals which services must be designed to meet:

—Achieving or maintaining economic self-support to prevent, reduce, or eliminate dependency.

—Achieving or maintaining self-sufficiency, including reduction or prevention of dependence.

—Preventing or remedying neglect, abuse, or exploitation of children and adults unable to protect their own interests, or preserving, rehabilitating, and reuniting families.

—Preventing or reducing inappropriate institutional care by providing for community-based care, home-based care, or other forms of less intensive care; and

—Securing referral or admission for institutional care when other forms of care are not appropriate, or providing services to individuals in institutions.

All services provided by a State must be tied to at least one of these goals, and at least one service for each goal must be provided. Further, title XX requires States to offer at least three services for aged, blind or disabled people receiving SSI.

Beyond these requirements to target groups, States are free to determine their own mix of services based upon a needs assessment and a mandatory planning process which, at the time of title XX's enactment, was heralded as one of the most significant aspects of the new law.

A. LEGISLATIVE ACTIVITIES IN 1981

President Reagan's plan to reduce the rate of growth in Federal spending included proposals to consolidate almost 100 categorical programs into six block grants in the areas of education, health, and social services. The administration explained that the block grant approach would eliminate the current array of complex, duplicative, uncoordinated, fragmented, and confusing programs. Eligibility criteria and formula allocation factors vary among the various categorical programs, which also require separate planning and reporting procedures and regulatory mechanisms. Coupled with the administration's block grant proposals was a request to cut funding for the programs to be included in the block grants by approximately 25 percent. The administration further explained that the administrative savings resulting from consolidation would, in part, offset this funding reduction.

The administration's social services block grant proposal would have combined 12 existing programs, which in fiscal year 1981 were funded at $5 billion. In the March 1981 budget, the administration requested $3.8 billion for the social services block grant in fiscal year 1982, or 25 percent less that fiscal year 1981 funding. A related proposal would have consolidated several small research and demonstration projects in the areas of child welfare, day care, child abuse and neglect, developmental disabilities, social services, and rehabilitation of the disabled. In the March budget, the consolidation would have been funded at $60.1 million, as compared with the current combined level of $84 million for the individual programs.

Many Members of Congress expressed support for the block grant approach, because of the potential administrative savings and simplification of Federal programs. Others, however, opposed the approach because of the broad discretion allowed to States and the loosening of Federal restrictions and targeting to assure a certain level of services for vulnerable populations. After considering and rejecting several versions of a social services block grant, Congress approved a block grant which consolidates only social services, day care, and training under title XX of the Social Security Act.

The House committees which have jurisdiction over the programs originally proposed for inclusion in the administration's social services block grant initially indicated their lack of support for the approach by reporting categorical reauthorizations of those programs which were expiring. These reauthorizations were part of the committees' recommendations to the House Budget Committee for inclusion in the Omnibus Reconciliation Act of 1981, H.R. 3982. However, the full House did not consider the Budget Committee's reconciliation bill. In its place, an alternative sponsored by Representative Latta was adopted by the House on June 26. The Latta alternative, which had the backing of the White House, included many of the administration's block grant proposals in the areas of health, education, and social services. The Latta substitute would have established a social services block grant similar to that proposed by the administration, except that the Latta measure would have consolidated six programs while the administration would have consolidated 12.

Meanwhile, on the Senate side, the Finance Committee agreed to consolidate certain programs under its jurisdiction into a social services block grant, which was adopted by the full Senate as part of the budget reconciliation process. Programs which fall under the jurisdiction of the Labor and Human Resources Committee were excluded from the Finance Committee's social services block grant.

House and Senate conferees of the reconciliation bill ultimately agreed to a social services block grant that included many features proposed by the administration, but consolidated only programs currently under title XX of the Social Security Act. The new social services block grant was funded at a level of $2.4 billion for fiscal year 1982 in the continuing resolution approved by Congress on September 30. On October 6, the House of Representatives passed their version of the fiscal year 1982 Labor, Health and Human Services, and Education appropriations bill, which also contained the $2.4 billion figure.

Title XX has been a major source of funding for community social services. Because programs funded under title XX are made available to all age groups the extent of program participation on the part of the elderly is unknown. States have a degree of flexibility in reporting requirements under the program. As a result, it is difficult to identify the numbers of elderly served, as well as the type of services they have

TABLE 1.—TITLE XX STATE ALLOTMENTS, FISCAL YEAR 1981

State	Social services	Child day care	Total
Alabama	$46, 332, 057	$3, 432, 004	$49, 764, 061
Alaska	4, 989, 797	369, 614	5, 359, 411
Arizona	29, 146, 356	2, 158, 989	31, 305, 341
Arkansas	27, 066, 241	2, 004, 907	29, 071, 148
California	276, 036, 044	20, 447, 115	296, 483, 159
Colorado	33, 058, 950	2, 448, 811	35, 507, 761
Connecticut	38, 370, 669	2, 842, 272	41, 212, 941
Delaware	7, 218, 490	534, 703	7, 753, 193
District of Columbia	8, 345, 218	618, 164	8, 963, 382
Florida	106, 407, 722	7, 882, 054	114, 289, 776
Georgia	62, 948, 204	4, 662, 829	67, 611, 033
Hawaii	11, 106, 321	822, 691	11, 929, 012
Idaho	10, 871, 071	805, 264	11, 676, 335
Illinois	139, 206, 659	10, 311, 604	149, 518, 263
Indiana	66, 538, 876	4, 928, 806	71, 467, 682
Iowa	35, 857, 199	2, 656, 088	38, 513, 287
Kansas	29, 072, 066	2, 153, 486	31, 225, 552
Kentucky	43, 310, 939	3, 208, 218	46, 519, 157
Louisiana	49, 105, 542	3, 637, 447	52, 742, 989
Maine	13, 508, 358	1, 000, 619	14, 508, 977
Maryland	51, 297, 090	3, 799, 758	55, 096, 875
Massachusetts	71, 491, 528	5, 295, 668	76, 787, 196
Michigan	113, 774, 792	8, 427, 762	122, 202, 554
Minnesota	49, 625, 570	3, 675, 969	53, 301, 539
Mississippi	29, 765, 437	2, 204, 847	31, 970, 284
Missouri	60, 174, 719	4, 457, 386	64, 632, 105
Montana	9, 719, 579	719, 969	10, 439, 548
Nebraska	19, 377, 250	1, 435, 352	20, 812, 602
Nevada	8, 171, 875	605, 324	8, 777, 199
New Hampshire	10, 784, 400	798, 844	11, 583, 244
New Jersey	90, 720, 196	6, 720, 015	97, 440, 213
New Mexico	15, 006, 535	1, 111, 595	16, 118, 130
New York	219, 749, 157	16, 277, 716	236, 026, 873
North Carolina	69, 052, 346	5, 114, 969	74, 167, 335
North Dakota	8, 072, 822	597, 967	8, 670, 809
Ohio	133, 090, 134	9, 858, 528	142, 948, 662
Oklahoma	35, 659, 093	2, 641, 414	38, 300, 507
Oregon	30, 260, 701	2, 241, 535	32, 502, 236
Pennsylvania	145, 484, 145	10, 776, 603	156, 260, 748
Rhode Island	11, 576, 823	857, 543	12, 434, 366
South Carolina	36, 129, 595	2, 676, 266	38, 805, 861
South Dakota	8, 543, 324	632, 839	9, 176, 163
Tennessee	53, 946, 759	3, 996, 056	57, 942, 815
Texas	161, 134, 524	11, 935, 891	173, 070, 415
Utah	16, 182, 790	1, 196, 725	17, 381, 515
Vermont	6, 029, 853	446, 656	6, 476, 509
Virginia	63, 740, 628	4, 721, 528	68, 462, 156
Washington	46, 728, 269	3, 461, 353	50, 189, 622
West Virginia	23, 029, 831	1, 705, 913	24, 735, 744
Wisconsin	57, 933, 644	4, 291, 381	62, 225, 025
Wyoming	5, 249, 810	388, 876	5, 638, 686
Total	2, 700, 000, 000	200, 000, 000	2, 900, 000, 000

Source: Department of Health and Human Services.

received. The Office of Management and Budget has estimated that during fiscal year 1981 approximately $575 million in title XX funds benefited the elderly. This represents about 21 percent of the total program dollars for that fiscal year.

TABLE 2.—*Fiscal year 1982 Federal allotments to States for social services—Title XX block grants—Revised*

Alabama	$40,962,220
Alaska	4,212,053
American Samoa	347,494
Arizona	28,620,903
Arkansas	24,071,886
California	249,237,734
Colorado	30,421,556
Connecticut	32,727,656
Delaware	6,265,431
District of Columbia	6,718,226
Florida	102,563,502
Georgia	57,536,651
Guam	413,793
Hawaii	10,161,579
Idaho	9,940,446
Illinois	120,233,067
Indiana	57,810,434
Iowa	30,674,279
Kansas	24,882,706
Kentucky	38,550,819
Louisiana	44,268,682
Maine	11,546,400
Maryland	44,395,044
Massachusetts	60,411,377
Michigan	97,487,978
Minnesota	42,931,355
Mississippi	26,545,467
Missouri	51,776,567
Montana	8,287,215
Nebraska	16,532,310
Nevada	8,413,577
New Hampshire	9,698,253
New Jersey	77,543,905
New Mexico	13,689,174
New York	184,877,567
North Carolina	61,854,005
North Dakota	6,578,177
Northern Mariana Islands	82,759
Ohio	113,693,853
Oklahoma	31,853,654
Oregon	27,725,842
Pennsylvania	124,961,097
Puerto Rico	12,413,793
Rhode Island	9,972,037
South Carolina	52,843,487
South Dakota	7,265,792
Tennessee	48,343,844
Texas	149,622,742
Trust Territory of the Pacific Islands	1,232,026
Utah	15,384,525
Vermont	5,380,898
Virgin Islands	413,793
Virginia	58,294,095
Washington	43,489,452
West Virginia	20,533,761
Wisconsin	49,544,279
Wyoming	4,959,693
Total	2,400,000,000

B. TITLE XX TRAINING

Under previous title XX legislation, the Federal Government reimbursed States for various forms of training, both short-term and long-term, in-service and in classrooms, for personnel employed in title XX agencies and certain volunteers. Prior to fiscal year 1980, title XX training was an open-ended entitlement to States. As a result of Public Law 96–272, however, State training allotments in fiscal years 1980 and 1981 were limited to either 4 percent of the State's regular title XX allotment for that year or the amount of Federal funds received for training in fiscal year 1979, whichever was higher.

It had been projected that in fiscal year 1982 and thereafter, States would receive reimbursement only for training included in an approved State plan. Federal matching rates for training under title XX was 75 percent.

The Omnibus Budget Reconciliation Act of 1981 altered the emphasis for title XX training by folding it into the social services block grant. This was effective on October 1, 1981, and gave the States wide discretion in deciding both the types and amount of funds to be spent on social services training activities.

Chapter 17

ACTION: VOLUNTEER PROGRAMS FOR OLDER AMERICANS

OVERVIEW

ACTION was established in 1971 under a reorganization plan which brought together seven existing Federal volunteer programs into a single independent agency. Of the seven programs which became components of ACTION, six were previously administered by three different Federal agencies and the Peace Corps was an independent agency.

In addition to the Peace Corps, the programs transferred to ACTION in 1971 included volunteers in service to America (VISTA) and the national student volunteer program, both previously administered by the Office of Economic Opportunity; and the foster grandparent and retired senior volunteer programs, which had been administered by the Administration on Aging in the Department of Health, Education, and Welfare (now the Department of Health and Human Services). ACTION also assumed primary, but not total, responsibility for administration of the service corps of retired executives (SCORE) and the active corps of executives (ACE) under an agreement with the Small Business Administration. These programs were returned to the Small Business Administration in 1975.

ACTION was given statutory authority in 1973 under the Domestic Volunteer Service Act, which repealed previous legislative authority for the component programs. Peace Corps, however, remained authorized under a separate statute. The 1973 Domestic Volunteer Service Act also authorized several new volunteer activities, including university year for action, senior companions, and demonstration projects.

The older American volunteer programs authorized under the Domestic Volunteer Service Act of 1973 (Public Law 93–113) were reauthorized in 1975 by the Older Americans Act Amendments (Public Law 94–135) and in 1978 by the Comprehensive Older Americans Act amendments (Public Law 95–478).

A. LEGISLATIVE ACTIVITIES IN 1981

The Reagan administration, on April 6, 1981, submitted to Congress draft legislation to reauthorize the Domestic Volunteer Service Act through fiscal year 1983. The administration proposal would have eliminated the mandatory set-aside of funds for university year for action, and would have gradually phased out the VISTA program. The final Omnibus Budget Reconciliation Act of 1981 included the administration's proposals. The Senate Labor and Human Resources Committee, on June 24, approved S. 1087, the Domestic Volunteer Service Act Amendments of 1981, which was virtually identical to the administration proposals. The text of S. 1087 subsequently was included in the Senate budget reconciliation bill, S. 1377, which was passed by the full Senate on June 25.

The House Education and Labor Committee, on May 19, reported H.R. 3292, which would have reauthorized ACTION programs under title I of the Domestic Volunteer Service Act through fiscal year 1984. In this legislation, the committee did not go along with the administration's proposal to phase out VISTA. However, in the budget reconciliation legislation passed by the full House on June 26, the phaseout proposal was adopted.

Authorizations of appropriations for programs under the Domestic Volunteer Service Act of 1973 have been extended through fiscal year 1983 by the Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35). Legislation was reported by the House Education and Labor Committee and by the Senate Labor and Human Resources Committee to amend portions of the act. However, provisions of the committee's bills were included in the Reconcilation Act, and Congress is not expected to take further action on these bills. The following describes legislative and budget proposals in the 97th Congress for title II, the national older American volunteer program. Programs under the act are administered by the Federal ACTION agency.

B. OLDER AMERICANS VOLUNTEER PROGRAMS

The older American volunteer programs (OAVP) include the retired senior volunteer program (RSVP), the foster grandparent program (FGP), and the senior companion program (SCP). RSVP, authorized under part A of title II, provides a variety of volunteer opportunities for persons 60 years and over in community settings. The foster grandparent program, authorized under part B of title II, provides volunteer opportunities for low-income persons 60 years and over who render supportive services to children with physical, mental, emotional, or social disabilities. The senior companion program, authorized under section 211(b) of title II, part B, provides volunteer opportunities for low-income persons 60 years of age who render supportive services to homebound and institutionalized persons. Both foster grandparents and senior companions serve 20 hours a week and receive a stipend of $2 an hour.

The Omnibus Budget Reconciliation Act of 1981 contains a 2-year authorization for the OAVP through fiscal year 1983. The legislation amends section 211 of the Domestic Volunteer Service Act to redesignate authorization for the senior companion program contained in part B as a separate part C.

Proposals to reauthorize the OAVP were also included in H.R. 3046, the Older Americans Act Amendments of 1981, reported by the House Education and Labor Committee on May 19; and S. 1087, the Domestic Volunteer Service Act Amendments of 1981, reported by the Senate Labor and Human Resources Committee on July 20. H.R. 3046 would have provided a simple extension of authorizations for the OAVP for

2 years, through 1983. The report accompanying committee action noted the following:

> The simple extension of these programs reflects a favorable assessment by the committee of the manner in which these programs have been implemented. The committee believes that any areas of concern regarding program administration can be addressed through policy shifts which do not require amendment to the statute itself.

S. 1087 would have extended authorizations for the OAVP for 2 years through 1983. The text of S. 1087 was included in the Omnibus Budget Reconciliation Act of 1981.

1. FOSTER GRANDPARENT PROGRAM (FGP)

The foster grandparent program is designed to provide part-time volunteer opportunities for low-income persons 60 years and over to assist them in providing supportive services to children with physical, mental, emotional, or social disabilities. Foster grandparents are placed with nonprofit sponsoring agencies such as schools, hospitals, day care centers, and institutions for the mentally or physically handicapped. Volunteers serve 20 hours a week and receive a stipend of $2 an hour plus meals, transportation assistance, an annual physical examination, and insurance benefits.

The program was originally developed in 1965 as a cooperative effort between the Office of Economic Opportunity and the Administration on Aging in the (then) Department of Health, Education, and Welfare. It was given a legislative basis in 1969 under title VI, part B, of the Older Americans Act of 1965, as amended. In July 1971 the program was transferred to the ACTION agency under the terms of the President's Reorganization Plan No. 1. In 1973, Public Law 93–113 repealed the program as part of the Older Americans Act and incorporated it into title II of the Domestic Volunteer Service Act of 1973.

The fiscal year 1980 appropriation level of $46.9 million supported 17,610 volunteers in 208 projects. Under a continuing appropriations resolution, FGP is funded at $48.4 million in fiscal year 1981.

2. RETIRED SENIOR VOLUNTEER PROGRAM (RSVP)

The retired senior volunteer program is designed to provide a variety of volunteer opportunities for persons 60 years and over in community settings. RSVP sponsors include State and local governments, universities and colleges, community organizations, and senior service organizations. Each project is locally planned, operated, and controlled. Volunteers receive reimbursement for transportation, meals, and other out-of-pocket expenses.

The program first received authorization in 1969 under title VI of the Older Americans Act of 1965, as amended, and was implemented in 1971 by the Administration on Aging. In July of that year, the program was transferred to the ACTION agency under the President's Reorganization Plan No. 1. In 1973, Public Law 93–113 repealed the program as part of the Older Americans Act and incorporated it into title II of the Domestic Volunteer Service Act.

The fiscal year 1980 appropriation of $26.2 million supported 274,700 volunteers in 707 projects. Under a continuing appropriations resolution, RSVP is funded at $27.7 million in fiscal year 1981.

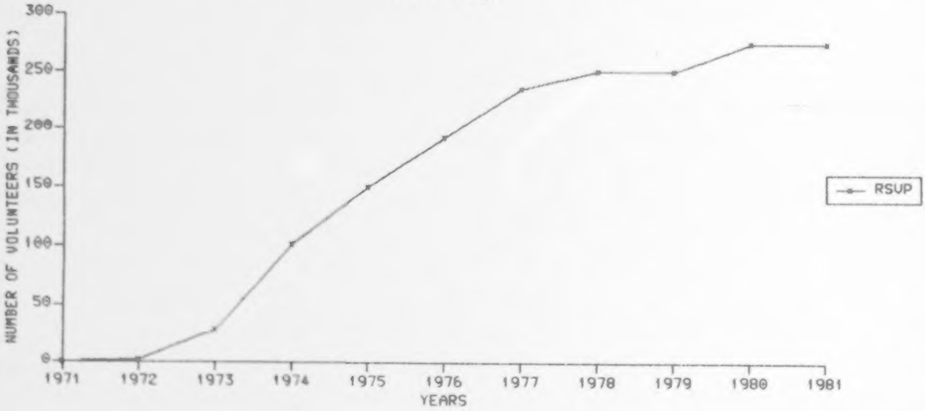
3. Senior Companion Program (SCP)

The senior companion program is designed to provide part-time volunteer opportunities for low-income persons 60 years of age and over to assist them in providing supportive services to vulnerable, frail older persons. The volunteers assist homebound, chronically disabled older persons in order to assist them to maintain independent living arrangements in their own places of residence; they also provide services to institutionalized older persons. Volunteers serve 20 hours per week and receive a stipend of $2 an hour plus meals, transportation assistance, an annual physical examination, and insurance benefits.

The program was authorized in 1973 by Public Law 93-113 and incorporated under title II, section 211(b) of the Domestic Volunteer Service Act of 1973. The fiscal year 1980 appropriation level of $10.2 million supported 3,820 volunteers in 61 projects. Under a continuing appropriations resolution, SCP is funded at $12.8 million in fiscal year 1981.

CHART 1

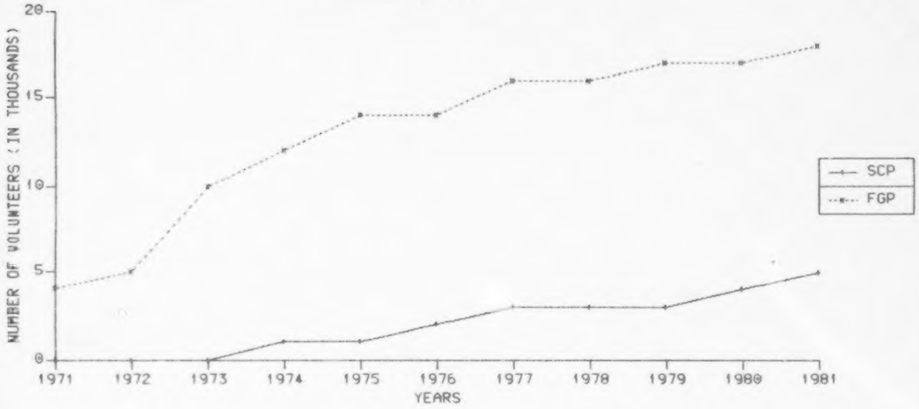
LEVELS OF PARTICIPATION IN
THE RETIRED SENIOR VOLUNTEER PROGRAM
1971-1981



Source: ACTION Agency

CHART 2

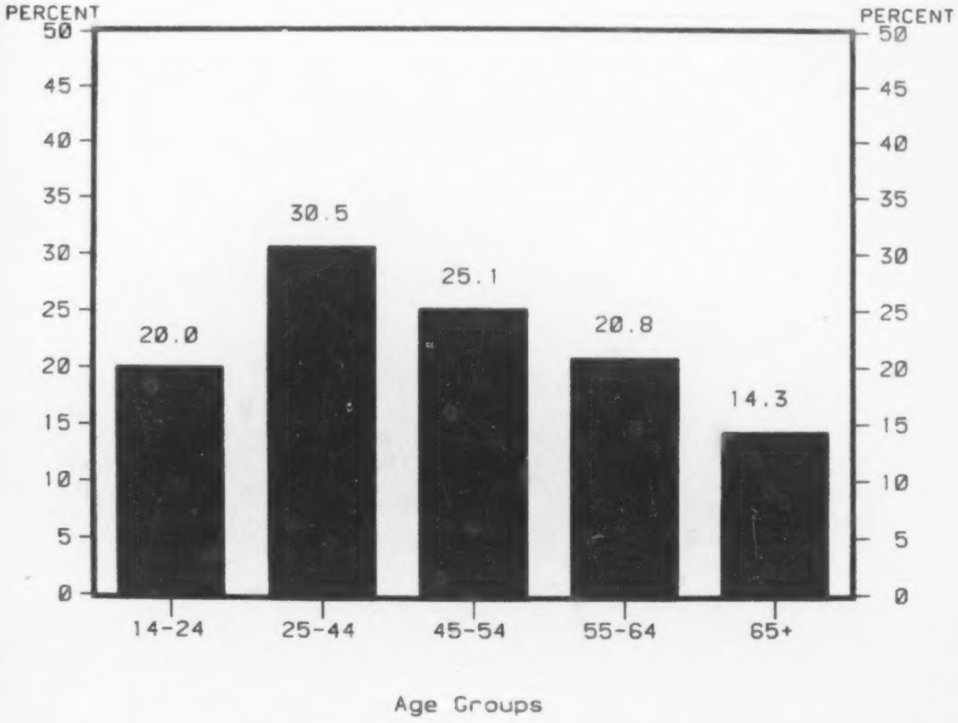
LEVELS OF PARTICIPATION IN FOSTER GRANDPARENTS AND SENIOR COMPANION PROGRAMS
1971-1981



Source: ACTION Agency

CHART 3

Involvement in Volunteer Activities: 1974



Source: US Bureau of Census

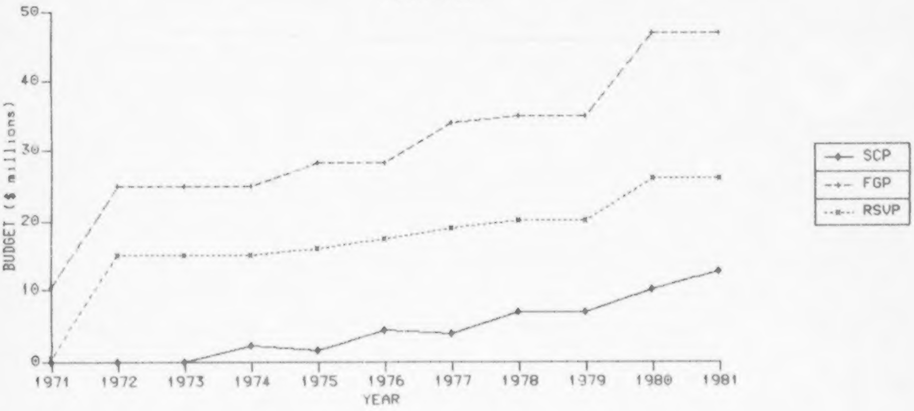
TABLE 1.—OLDER AMERICANS VOLUNTEER PROGRAMS (OAVP)

[In millions of dollars]

	Appropriation		Authorization levels Public Law 97-35	
	1980	1981	1982	1983
Title II:				
RSVP	26.214	27.717	28.691	30.412
FGP	46.932	48.4	49.67	52.65
SCP	10.171	12.783	16.6	17.607
Total	83.317	88.9	94.961	100.669

CHART 4

OLDER AMERICANS VOLUNTEERS PROGRAMS
BUDGETS BY PROGRAM
1971-1981



Source: ACTION Agency

Chapter 18

COMMUNITY SERVICES BLOCK GRANT

OVERVIEW

Legislative authority for the Community Services Administration (CSA), expired at the end of fiscal year 1981. The Community Services Administration was the successor agency to the Office of Economic Opportunity (OEO), originally authorized in 1964 by the Economic Opportunity Act. CSA was most recently reauthorized (Public Law 95–568) in 1978.

The primary goals of the Community Services Administration were twofold: (1) To provide the necessary assistance to the poor to become self-sufficient, and (2) to promote sensitivity and responsiveness to the needs of the poor.

The 1978 reauthorization of CSA emphasized specialized services to the elderly through programs such as: Senior opportunities and services, community food and nutrition, emergency energy conservation and crisis intervention, and local initiative programs through community action agencies.

The administration, in March 1981, proposed that CSA activities and a portion of its budget be folded into a social services block grant to States, beginning in fiscal year 1982. Under the administration proposal, CSA as a Federal agency would be abolished.

In the 1981 budget reconciliation legislation (Public Law 97–35), House-Senate conferees agreed to repeal the Economic Opportunity Act and abolish CSA. Funding for antipoverty activities will now be administered by the Department of Health and Human Services (HHS) as a block grant to States. However, these funds will not be consolidated with other programs in the social services block grant as originally proposed by the administration. The funds will constitute a separate block grant, entitled the community services block grant.

A. CONGRESSIONAL ACTION

When President Reagan unveiled his revised fiscal year 1982 budget on March 10, 1981, he proposed a consolidation of 12 social services programs, including CSA, into a block grant to States. Under this proposal, CSA would be abolished as a Federal agency. This proposal was consistent with the administration's stated goal of consolidating categorical programs into block grants and transferring decisionmaking authority to States.

1. SENATE ACTION

When the Labor and Human Resources Committee met on June 10, 1981, the Committee approved a separate block grant for CSA programs. The measure, as approved by the committee, would establish a community services block grant, to be administered by the Department of Health and Human Services (HHS), at an annual funding level of $354.4 million for fiscal year 1982 and each of the four succeeding years. This amount represents a 25-percent decrease from fiscal year 1981 appropriations for certain CSA programs. The following programs were not considered in determining the authorization level for the community services block grant: national youth sports, community economic development, energy conservation, and senior opportunities and services.

2. CONFERENCE AGREEMENT

The House, in their deliberations on reconciliation, included community services as part of a social services block grant. However, conferees on the reconciliation bill agreed to delete CSA from the House-passed version of the social services block grant and instead approved the separate community services block grant designed by the Senate. Members of the House Education and Labor Committee and Senate Labor and Human Resources Committee met on July 23, 1981, to approve a final version of the community services block grant.

As agreed to by conferees, the Community Services Block Grant Act authorizes $389.4 million per year for fiscal years 1982 through 1986. Of this amount, the Secretary of Health and Human Services may reserve up to 9 percent for his discretionary use.

To receive a community services block grant allotment, States must submit an application to the Secretary of HHS, containing assurances that the State will comply with certain requirements and a plan indicating how these assurances will be carried out. Neither the application nor the plan is subject to the approval or disapproval of the Secretary. States must guarantee that the State legislature will hold hearings on the proposed use and distribution of funds before the State may receive a second-year allotment. States also must agree to use block grant funds for services and activities "having a measurable and potentially major impact on causes of poverty in the community," to promote self-sufficiency for low-income individuals, to provide emergency food and nutrition services, to coordinate public and private social services programs, and to encourage the use of private sector entities in antipoverty activities.

During fiscal year 1982, States will be required to pass through at least 90 percent of their allotment to existing community action agencies currently funded by CSA or to organizations serving migrant and seasonal farmworkers. In fiscal year 1983 and thereafter, States must pass at least 90 percent of their allotment on to local governments, nonprofit community groups, or organizations serving migrants and seasonal farmworkers. Nonprofit community groups will be eligible only if their board of directors meets a prescribed structure (one-third low-income representatives, one-third elected officials or appointed officials in certain cases, and one-third representatives of major interest groups in the community). Priority must be given to existing community action agencies.

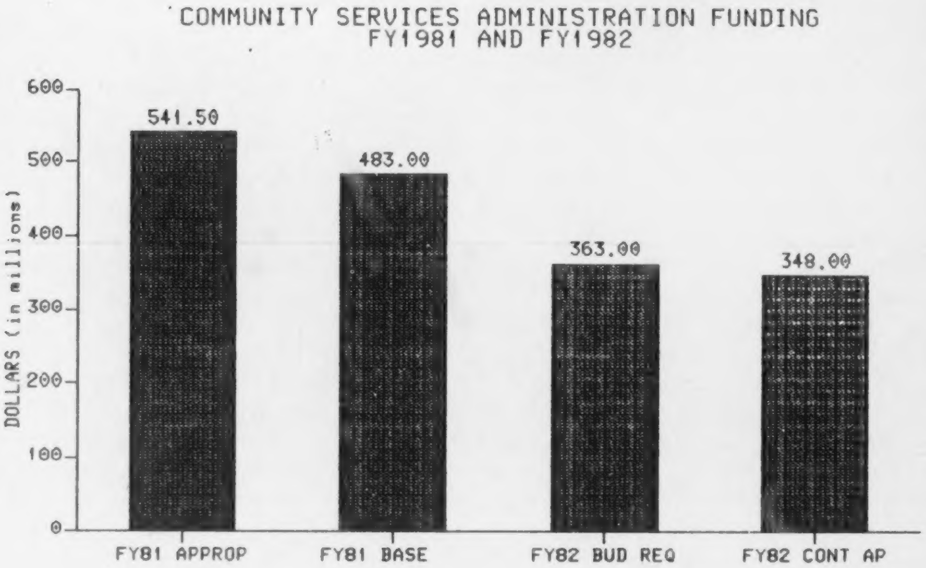
The Secretary of HHS will administer the community services block grant, including the discretionary component, through a newly established Office of Community Services (OCS). The discretionary fund, which may not exceed 9 percent of the annual appropriation, may be used for training or other activities related to the block grant, including rural housing activities, assistance for migrants and seasonal farmworkers, recreational activities for low-income youth, and community economic development activities previously supported under title VII of the Economic Opportunity Act. Although the Community Services Block Grant Act repeals title VII, the reconciliation bill reinstates most of the title VII language in a separate Community Economic Development Act and specifies that funding for such activities can come from the Secretary's discretionary account. The maximum amount authorized for the Secretary's discretionary account—9 percent of appropriations—would equal $35 million if the full authorization level were appropriated. This level is roughly equal to 75 percent of fiscal year 1981 funding for title VII.

During fiscal year 1982 only, States may choose not to participate in the block grant and instead allow HHS to continue funding existing grantees. States may opt into the block grant at the beginning of any quarter during fiscal year 1982. The Community Services Administration, meanwhile, ceased to exist on October 1, 1981, and the Office of Management and Budget was authorized to begin termination of CSA as soon as the reconciliation bill was enacted. Finally, the legislation reestablishes the current definition of poverty ($8,450 annual income for a nonfarm family of four) and requires periodic revisions based on changes in the Consumer Price Index.

B. IMPACT OF LEGISLATIVE CHANGE

It is assumed that the four programs that directly helped the low-income elderly will continue to exist in some manner or form, though their future is somewhat unclear. Funding levels were much lower after the transfer of Community Service Administration funds into the community service block grant. Local community action agencies may be hard pressed to deliver adequate services after receiving the pass through funds from the States.

CSA funding is as follows: Fiscal year 1981 appropriation (Public Law 96–536), $541.5 million. Fiscal year 1981 current base, $483 million (the administration's current policy base for CSA does not include appropriations made in fiscal year 1981 for community economic development, youth sports, and, according to agency officials, the National Center for Appropriate Technology). Fiscal year 1982 budget request, $363 million (the Reagan administration requested no funds for CSA in fiscal year 1982. This figure represents the amount of funds appropriated to CSA in fiscal year 1981 that the administration proposed to transfer to the social services block grant in fiscal year 1982). Fiscal year 1982 continuing appropriation (Public Law 97–92), $348 million (specified in a continuing resolution effective through March 30, 1982, subject to a further 2 percent reduction at the discretion of the Secretary of the Department of Health and Human Services).



1. Senior Opportunities and Services

The senior opportunities and services (SOS) program was designed to provide services to low-income elderly, primarily to individuals not being served by other Federal programs for the elderly. SOS also gave preference to the employment of low-income elderly as service providers. Local SOS programs maintained information and outreach networks which sought out the very poor for assistance, provided information on services and complemented the senior center services funded by the Administration on Aging. In fiscal year 1981, SOS was appropriated $10.5 million and served over 1.5 million low-income elderly.

There was no mention of SOS in the authorization of the community services block grant. However, the authorization language provides for services to low-income elderly and envisions program services similar to those offered in the past through SOS. As to the future, community action agencies, the predominant recipients of SOS service moneys, may not have the flexibility to continue SOS services because of the reduced funding under the block grant.

In another legislative development, there was an amendment to the recently reauthorized Older Americans Act (Public Law 97–115) which permits SOS services to be an allowable service under title III–B (social services) of the act.

2. Community Food and Nutrition Program

The purpose of the community food and nutrition program (CFNP) was to fight hunger and malnutrition among the poor. The main objective of CFNP was to link the poor with opportunities provided by existing food and nutrition programs. CSA funded over $26 million in fiscal year 1981 through CFNP to community action agencies, other nonprofit community organizations, Indian projects, migrant groups, and national support groups to provide: (1) Greater access and improvement of service delivery, e.g., food stamp outreach and assistance; (2) self-sufficiency, e.g., community gardens; (3) nutrition consumer education (4) crisis relief, e.g., food banks, and (5) coordination of antihunger efforts.

The CFNP services were available to low-income elderly, and attempted to improve and expand elderly food programs. There are no statistics on the number of older people who utilized these services. This program will be an eligible service under the community service block grant, and be provided at the discretion of the States. As in the case of the SOS programs, community action agencies will be hard-pressed to provide CFNP services with limited funding.

3. ENERGY PROGRAM

In the past, the energy programs under CSA provided emergency assistance and crisis intervention for low-income elderly to help defray fuel bills. With the passage of the Home Energy Assistance Act of 1980 (Public Law 96–126), a major portion of CSA's energy activities were transferred to the Department of Health and Human Services. In fiscal year 1981, CSA had allocated to the National Center for Appropriate Technology $3.7 million. The National Center awarded grants to community action agencies for model projects in the area of conservation and renewable energy. Over 25 percent of the moneys went to projects directed toward the elderly poor. The National Center for Appropriate Technology has been transferred to the Department of Energy, with no subsequent transfer of funds.

4. COMMUNITY ACTION AGENCIES

Community action agencies were created under CSA to stimulate a better focusing of all available local, State, private, and Federal resources upon the goal of enabling low-income individuals of all ages, in rural and urban areas, to attain the skills, knowledge, and motivation to secure the opportunities needed for them to become self-sufficient.

Community action against poverty was carried out by a nationwide network of over 850 community action agencies in fiscal year 1981. Over 2 million persons 50 years of age and older were beneficiaries of the programs and projects administered by community action agencies. At the end of fiscal year 1982, the future existence of the individual community action agencies will be dependent on the actions of each State, the funding level under the community service block grant, and local sources of funds.

Chapter 19

LEGAL SERVICES

OVERVIEW

The Federal Government has administered a program of legal services for the economically distressed since 1966. Originally, the program was administered through the Office of Economic Opportunity, but more recently it has been operated under the auspice of the Legal Services Corporation, a private nonprofit entity. Legislation authorizing the Legal Services Corporation expired at the end of fiscal year 1980. During fiscal year 1981, the Corporation was authorized and funded by a continuing appropriation resolution. Early in 1981, the Reagan administration announced plans not to seek reauthorization of the Corporation, and did not request funding for the Corporation in the fiscal year 1982 Budget. The House, however, approved legislation (H.R. 3480), which would authorize the Legal Services Corporation through fiscal year 1983. In the Senate, the Committee on Labor and Human Resources reported legislation (S. 1533) which would authorize the Corporation through fiscal year 1984. The Corporation is currently funded and operating under a continuing resolution.

A. HISTORY

Legislation creating the Legal Services Corporation was enacted in July of 1974. Previously, legal services had been a program of the Office of Economic Opportunity, added to the Economic Opportunity Act of 1966. Public Law 93–355 established the legal services program as a private nonprofit corporation headed by an 11-member board of directors nominated by the President and confirmed by the Senate.

The Corporation does not provide legal services directly but instead funds local legal aid projects. At present, the Corporation has 323 local grantees that provide legal services through 1,450 neighborhood offices in all 50 States, the District of Columbia, Puerto Rico, the Virgin Islands, and Micronesia. These local programs employ more than 6,200 attorneys and 2,800 paralegals. Each local legal service project is headed by a board of directors of which 60 percent are lawyers who have been admitted to the State bar. The Corporation also funds a number of national support centers, which develop and provide specialized expertise in various aspects of poverty law to legal services attorneys in the field.

Legal services provided with Corporation funds are available only in civil matters and to individuals with incomes no higher than 125 percent of the OMB poverty guidelines. Several restrictions on the types of cases legal services attorneys may handle were included in the original law and several others have been added since then.

When the Corporation was formally established in 1975, its foremost goal was to provide all low-income individuals and families with at least "minimum access" to legal services, defined as the equivalent of two legal services attorneys for every 10,000 poor people. To achieve its goal of minimum access, the Corporation sought and obtained increased appropriations. During fiscal year 1976, which was its first full year of operation, the Corporation was funded at $92.3 million. In fiscal year 1980, the goal of minimum access was achieved with an appropriation of $300 million. Under the continuing resolution, the LSC was funded in fiscal year 1981 at $321 million.

Committees in both the House and Senate last year reported legislation to extend the Legal Services Corporation beyond its September 30, 1980 expiration date. The Senate Labor and Human Resources Committee reported S. 2337 on May 2, 1980, which would have reauthorized the Corporation through fiscal year 1982. The House Judiciary Committee, on May 16, reported H.R. 6386 to reauthorize the Corporation through fiscal year 1983. Both bills were simple extensions of existing law with no amendments.

The full Senate passed S. 2337, with several amendments, on June 13, 1980. The House Judiciary Committee, however chose not to bring H.R. 6386 before the full House for a vote for fear that numerous amendments that were pending would restrict dramatically the scope of the Corporation's work. Problems with a vetoed appropriations bill, subsequently forced the Corporation and several other agencies to be included in the continuing appropriations resolution Public Law 96–536.

In the fiscal year 1982 budget proposal submitted to Congress, President Reagan announced plans not to seek reauthorization of the Legal Services Corporation and requested no funding for the program in fiscal year 1982. The President also proposed consolidation of 12 social services programs into a block grant to States. According to the administration budget documents, legal services would have been an eligible activity under the proposed social services block grant. This approach was seen as consistent with the administration's goal of consolidating categorical grant programs and transferring decision-making authority to States. The administration also argued for increased pro bono efforts on the part of private attorneys as part of their professional responsibility.

On June 18, 1981, the House passed a 2-year authorization for the Legal Services Corporation. This legislation, H.R. 3480, had been reported by the House Judiciary Committee on May 19, and would have authorized $260 million for each of fiscal year 1982 and fiscal year 1983. The authorization, however, was reduced on the House floor to $241 million for each of the two fiscal years.

In the Senate, a 3-year reauthorization of the Legal Services Corporation was introduced by Senator Eagleton. The Senate Labor and Human Resources Committee took no action on this measure, but rather, the committee agreed to report a bill, S. 1533, that would provide for a simple extension of the Corporation for three fiscal years at $100 million annually. The authorization level of $100 million was the same amount included by the Senate in its omnibus reconciliation legislation which was approved on June 25. Conversely, the House reconciliation bill did not address the question of the Legal Services Corporation. During conference committee negotiations on the reconciliation bill, the Senate agreed to drop the Legal Services Corporation entirely from the legislation and address the issue of whether to reauthorize the Corporation, and at what funding level in a separate bill. The exclusion of legal services from the reconciliation bill did not preclude Congress from subsequently reauthorizing the program, at either the $100 million level favored by the Senate or the $241 million level endorsed by the House.

B. LEGAL SERVICES FOR THE ELDERLY

Legal services for older persons are currently being provided under the auspice of a number of existing programs. They include programs funded under the Legal Services Corporation Act, the Older Americans Act (title III–B), and title XX of the Social Security Act. In addition, a number of private bar associations have initiated programs for the elderly on a pro bono and reduced fee basis.

The improvement of legal services for the elderly during the 1970's and early 1980's has been enhanced by both the Legal Services Corporation and the now well developed network of State and area agencies on aging. There has been a growth of expertise by legal service programs in issues of concern to the elderly. Such programs have increased nonlawyer advocacy and client involvement in legal service delivery, and in resolving clients' legal problems.

Although programs funded under the Legal Services Corporation Act make services available to all low-income people without focusing on any particular group, the act requires that priority consideration be given to clients who have special access difficulties or special unmet legal needs. As a result, legal service projects have become increasingly available to the elderly. At the national level, the Legal Services Corporation has funded a number of national support centers which are involved in issues that confront older people. The Corporation has also been involved in coordinating its activities with the Administration on Aging at the national and local levels.

Under title III–B of the Older Americans Act, legal services have been included as a priority service since the 1975 amendments. A recent report of the miniconference on legal services for the elderly, developed for the 1981 White House Conference on Aging noted the following:

> At the local level, almost two-thirds of all title III–BOAA legal services providers are LSC projects. Over 40 percent of all LSC projects receive title III–B funds. In October of 1979 the median title III–B funding for an LSC grantee which reported receipt of such funds was $35,308. The total of title III–B funds used for the LSC programs across the Nation now approaches $6 million, approximately half the national total reported by State agencies on aging as obligated for all kinds of legal advocacy.

Title XX of the Social Security Act has made Federal funds available for disposition by State governments for a wide variety of social services, including legal services. In a number of situations, title XX funds have been used as a source of support for elderly advocacy and services.

C. FISCAL YEAR 1982 APPROPRIATIONS

The House Appropriations Committee on July 16 reported a fiscal year 1982 spending bill (H.R. 4169) which included $241 million for the Corporation. In similar action, the Senate Appropriations Committee reported the same bill on October 30 at the $241 million level. These were the same amounts approved by the House during passage of the LSC authorization bill (H.R. 3480).

Final floor action on this bill has not yet occurred. Therefore, the Corporation is currently operating at $241 million, set in the continuing resolution (Public Law 97-92) which will expire on March 31, 1982.

Chapter 20

TRANSPORTATION FOR OLDER AMERICANS

OVERVIEW

Transportation is the vital connecting link between home and community. For the elderly and nonelderly alike, adequate transportation is necessary for the fulfillment of the most basic needs: maintaining relations with friends and family, commuting to work, grocery shopping, and engaging in social and recreational activities.

Housing, medical, financial, and social services are useful only to the extent that transportation can make them accessible to those in need. Transportation, then, serves both humane and economic ends. It can enrich an older person's life by expanding opportunities for social interaction and community involvement, and it can support the individual's capacity for independent living, reducing or eliminating the need for institutional care.

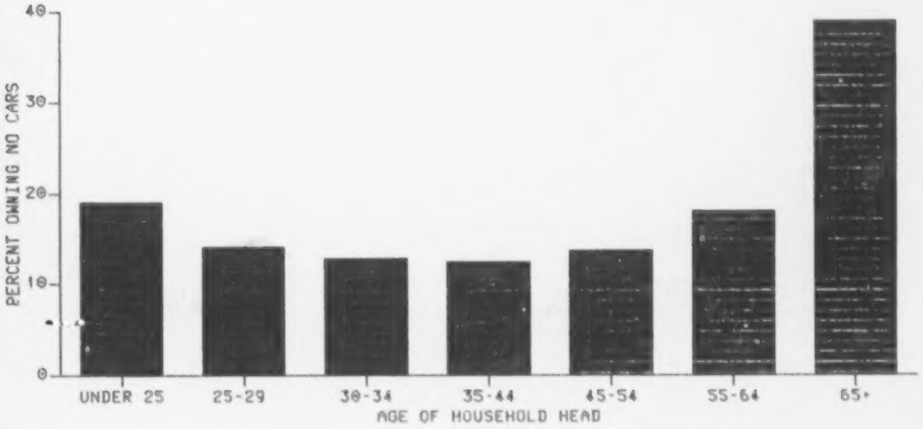
The automobile is the primary means of transportation in the United States for both younger and older age groups, accounting for more than 80 percent of all personal trips, including excursions by automobile, public transportation, walking, bicycling, and other modes. However, the automobile is less available as a means of personal transportation for those 65 and older, because the number of both car owners and drivers declines dramatically in the upper age groups.

A 1974 survey by the U.S. Bureau of the Census revealed that approximately 4 out of 10 persons aged 65 and older who were heads of households did not own an automobile, a figure twice that of any other age group.

Decline in automobile ownership in the older age groups is accompanied by a decline in frequency of excursions (approximately half that of younger persons), and an increase in the proportion of trips taken as passengers rather than drivers. The older woman is particularly disadvantaged in a society dominated by automobiles. Possession of automobiles and driver's licenses is substantially lower among women aged 65 and older than among older men.

For many elderly, the problem is availability of transportation—any transportation. Public transit systems generally do not exist in isolated rural areas. Even in urban areas, the elderly may live in residential locations poorly serviced by public transit. The problem of poor transit service is compounded by the fact that routes are fixed and traditionally designed to serve central business districts and work force destinations.

Design and travel barriers on the systems they use add to the elderly's difficulties in obtaining transportation that adequately serves their needs.



PERCENT OF HOUSEHOLDS WITH NO PASSENGER CARS
BY AGE OF HOUSEHOLD HEAD, 1974

SOURCE: DEPARTMENT OF TRANSPORTATION

The 1971 White House Conference on Aging highlighted the transportation needs of older Americans. In the past 10 years, progress has been made through the Older Americans Act and the Urban Mass Transit Act in providing better transportation services for older people (see table 1). Yet, the need for better coordination among transportation providers, more adequate urban transportation systems, and improved rural transportation are still unmet goals.

TABLE 1.—*Transportation for Older Americans*

Major legislative and policy changes since the 1971 White House Conference on Aging, year, event and description[1]

1973

Post-White House Conference on Aging Reports: Provided input to 1973 Older Americans Act Amendments.

Passage of Older Americans Act amendments: Established area agencies on aging; set forth priority services to which 20 percent of title III(b) funds had to be allocated. Transportation one of four priorities.

Passage of Federal-Aid Highway Act of 1973:

Created the section 147 rural highway transportation demonstration program, providing funds for rural and small urban area transportation projects.

Amended section 3 of the UMT Act, increasing Federal contribution for capital grants from 67 to 80 percent. Increased amount of general public transportation available. Also provided up to 100 percent of planning costs.

Allowed "interstate transfers" from moneys allocated to highway trust fund to projects involving public transit.

Passage of section 504 of the Rehabilitation Act of 1973:

One of first legislative mandates setting forth non-discrimination on the basis of handicap alone in programs receiving Federal moneys.

Establishment of Architectural and Barriers Compliance Board to oversee accessibility of fixed facilities and (as of 1978) vehicle design.

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[1] One notable development prior to that time was the inclusion of section 16(a) in the 1970 Urban Mass Transportation Act, which specified the equality of the elderly and handicapped to use public transit. However, regulations were not issued until 1976.

Source: Institute of Public Administration, Improving Transportation Services of Older Americans, September 1980, p. 17–19.

1974

Passage of the National Mass Transportation Assistance Act allowing, for the first time:

(1) Operating assistance for transit systems in cities of populations greater than 200,000.

(2) Reduced fares during off-peak hours for the elderly and handicapped (section 5).

First interagency working agreement between AoA and DOT.

1975

First year allocation of section 5 moneys distributed on formula basis—$155.7 million available for capital and operating purposes.

Office of Human Development Services coordination initiatives.

Older Americans Act Amendments of 1975 authorized State or area agencies on aging to enter into agreements with agencies administering programs under the Rehabilitation Act of 1973 and titles XIX and XX of the Social Security Act.

Publication of "Transportation for Older Americans: A State of the Art Report" and the "Planning Handbook" by IPA.

Allocation of $20.8 million by UMTA under section 16(b)(2) for capital assistance grants to nonprofit organizations to meet the transportation needs of the elderly and handicapped.

1976

Publication of regulations implementing section 16(a) of the Urban Mass Transportation Act of 1964, as amended. Provided guidelines on how to comply with "special efforts" requirements.

1977

Secretary of Transportation Adams mandated Transbus for all bus purchases after September 30, 1979.

General Accounting Office released major report on hinderances to coordinating federally funded programs.

1978

Older Americans Act Amendments of 1978 provided for:

(1) An increase in amount of moneys which had to be spent on priority services, including transportation, from 20 to 50 percent.

(2) Consolidation of title VII (the nutrition program) into title III(c), with supportive services moneys curtailed.

(3) Federal match for services provided under title III increased to 90–10 throughout grant period, rather than decreasing match over 3 years.

(4) Maintenance of effort requirements implemented for rural areas to 105 percent of the amounts grantees spent for services in 1978.

Passage of Surface Transportation Assistance Act of 1978 allowed for ongoing support to rural and small urban transportation by establishing the section 18 program. Provides for capital assistance with an 80–20 Federal/local share and 50–50 to defray operating costs. Areas with populations under 50,000 eligible.

1979

Promulgation by DOT of regulations to implement section 504 of the Rehabilitation Act of 1973. Mandates accessibility for all modes of transportation receiving public moneys within 30 years with additional provisions to be made for providing interim accessible services during transition to complete accessibility. Specialized transportation systems serving elderly and handicapped may serve as interim provider.

Transbus specifications rejected by American bus manufacturers.

Formulation of White House Rural Development Initiatives which included provisions for: coordination of social service and public transportation programs, increased van-pooling, assistance to commuter airlines in rural communities, and railroad branchlines rehabilitation.

1980

Focus on accessibility rather than services.

Local option amendment to 1981 DOT appropriations Bill for the implementation of 504 regulations.

1981

U.S. Appellate Court of District of Columbia ruling that DOT's section 504 regulations placed onerous affirmative burdens on local programs and exceeded DOT's authority.

In July 1981, DOT issued interim final rule on section 504 which called for "special efforts" to provide effective transit services to the handicapped.

White House Conference on Aging.

A. LEGISLATION AND PROGRAMS

Most transportation programs authorized by the Federal Government are administered by the Department of Health and Human Services (HHS) and the Department of Transportation (DOT).

Provisions of transportation services for older Americans are supplied under the Department of Health and Human Services through the Older Americans Act and a number of other programs.

Title XX, social services of the Social Security Act, contributes money by formula to the States for use in serving low-income persons of all ages. Transportation for older people is one possible use for the money. Medicaid(title XIX) funds may be used to cover transportation of a patient to an allowable service.

The goal of the Department of Transportation programs through the Urban Mass Transit Act is to subsidize, and favorably influence the design of mass transit systems through discretionary funding of State and local projects.

Four historical events in the development of legislative policy influence the current provision of transportation services to older people:

(1) The passage of the Older Americans Act (Public Law 89-73) in 1965, with amendments, has had a large impact on transportation to older people. Title III of the act distributes funds by formula to States. Access to services (which includes transportation) has been designated as a priority service under title III. The amendments of 1981 (Public Law 97-115) require the expenditure of an adequate amount of title III-B (social services) funds to create "an effective system" in access services.

(2) The passage of section 16(A) of the Urban Mass Transportation Act of 1964 as amended (Public Law 91-453), mandated the implementation of the associated "special effort" and planning regulations. Section 16(A) of the Urban Mass Transit Act sets out the national policy of Congress that the elderly and handicapped have equal rights to mass transit services with other Americans:

> That special efforts shall be made in the planning and design of mass transportation facilities and services so that the availability to elderly and handicapped persons of mass transportation which they can effectively utilize will be assured.

(3) The third significant legislative and policy decision in the last 10 years has been the National Mass Transportation Assistance Act of 1974 (Public Law 93-503), which amended the Urban Mass Transit Act. Particularly, section 5 and more specifically, sections 5 (m) and 16(b)(2). Section 5 of the Urban Mass Transit Act provides money to all urbanized areas in the country by formula and permits the money to be used for capital operating purchases at the locality's discretion. Section 5(m) also contains the requirement that localities give reduced fares in nonpeak hours to the elderly and handicapped. Section 16(b)(2) of the Urban Mass Transit Act sets aside 2 percent of the section 3 urban discretionary funds for capital grants to private nonprofit groups serving the elderly and handicapped.

(4) The fourth piece of major legislation that impacts the elderly is section 18 of the Surface Transportation Assistance Act of 1978 (Public Law 95-599). Beginning with fiscal year 1979, funds became available at the Federal level to support public transportation program cost, both operating and capital, for nonurbanized areas. Areas with populations under 50,000 were eligible for section 18 funds.

1. Systems Serving the Elderly

In 1975, the Institute of Public Administration, in its report, "Transportation for Older Americans: The State of the Art," identified 920 transportation projects serving the elderly of which 314 could be identified by type of service.[1] Five basic service categories were identified as serving the elderly: Conventional public transit, typically fixed-route and schedule service; special systems, usually described as some form of dial-a-ride or demand-responsive system; coordinated systems encompassing both fixed-route and dial-a-ride attributes, frequently "route deviation" systems; taxi systems typically operating with some form of reduced or subsidized rate; and a range of volunteer-based programs, usually operated by the private nonprofit providers. The dial-a-ride or demand-responsive systems in coordination with the taxi systems and the modified fixed-route systems (all of which represent forms of paratransit), accounted for almost 70 percent of the service providers.[2]

2. Specialized Systems

Specialized transportation systems comprise the major provider currently serving the elderly, and most take the form of a demand-responsive or dial-a-ride system—typically providing door-to-door service and requiring an advance reservation (usually 24 hours). A recent Institute of Public Administration study suggests there has been a steady increase of these systems, particularly those funded under title III (and formerly title VII) of the Older Americans Act. Estimates indicate that in fiscal year 1975 there were about 2,000 transportation projects being supported either fully or partially under these two titles, and by 1979 the total appears to have increased to an estimated range of 2,800 to 3,200 projects.[3]

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[1] Institute of Public Administration, "Transportation for Older Americans," April 1975, op. cit., p. 73.
[2] Ibid.

The Older Americans Act has played a major role in developing these specialized transportation services to serve older Americans. However, there have also been other important sources of funding; for example, section 16(b)(2) of the Urban Mass Transportation Act has been estimated to have assisted in the purchase of some 3,000 vehicles for the elderly and handicapped.[4] Since the program is designed to provide private nonprofit agencies with capital assistance for vehicles, it has played an important role as capital "seed" money for transportation of the elderly.[5]

B. 1981 DEVELOPMENTS

1. Impact of the 1981 Budget Reconciliation

The ramifications of the Omnibus Reconciliation Act of 1981 (Public Law 97-35) are not known concerning the provision of services. It is safe to say that the reductions in title XX (social services), title XIX (medicaid), and CETA programs will have an adverse impact on provisions of services, especially transportation to older Americans.

In a recent survey of 60 funded transportation providers (table 2) conducted by the Public Administration Institute,[6] almost 40 percent of a sample, noted that they were using CETA funds. The funds were being used to finance a variety of services, especially drivers. With a reduction in CETA, social services, and medicaid, the Older Americans Act, which has reduced funding levels under the continuing appropriations (Public Law 97-92), may be hard pressed to maintain previous levels of transportation services for the elderly.

2. Department of Transportation Regulations Concerning Access

In recent years, there has been much debate about the Department of Transportation (DOT) regulations implementing section 504 of the Rehabilitation Act of 1973. In 1979, the Department of Transportation promulgated regulations (49 CFR Part 27) to implement the act. The regulations mandated accessibility for all modes of transportation receiving public money within 30 years, with additional provisions for providing interim accessibility services during transition to complete accessibility. Specialized transportation systems serving elderly and handicapped could serve as an interim provider.

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[3] Institute of Public Administration, "Improving Transportation Services for Older Americans," sponsored by the Administration on Aging, September 1980, p. 25.

[4] Willis, Y. "The Effects of AoA's Interagency Agreement Strategy," "Transportation for the Elderly and Handicapped: Programs and Practices," pp. 7-10, December 1978.

[5] Woznev, M., and Burkhardt, J. "An Analysis of Continuation of Services." Funded under title III of the Older Americans Act of 1965, Department of Health and Human Services, Administration on Aging, 1980.

[6] The Institute of Public Administration, "Improving Transportation Services for Older Americans: Final Report," sponsored by AoA, September 1980, p. 52.

TABLE 2.—*A profile of area agency-funded transportation providers, selected characteristics—1980*

[Based on sample survey of 60 providers]

Characteristics	*Percent of providers*
1. Type of agency:	
Public	38
Private nonprofit	53
Private-for-profit	5
Other	4
2. Provide service other than transport	75
3. Staff size: Under 10 (median 10)	50
4. Funding:	
Using Older American Act—title III-B	72
Section 16(b)(2) UMT Act	27
CETA funds	37
5. Budget size: $80,000 or less (median $80,000) (mean $275,000)	50
6. Clients and service methods:	
Elderly served	97
Handicapped served	70
Directly operate service	93
Purchase services	22
Provide door-to-door service	80
7. Trip priorities:	
a. First priority:	
Medical	47
Nutrition	17
Personal business and shopping	33
b. Second priority:	
Medical	12
Nutrition	23
Personal business and shopping	48
c. Third priority:	
Medical	7
Nutrition	8
Personal business and shopping	62
8. Hours of operation and characteristics:	
Weekday—8-9 hours	62
Bimodal peak (a.m. and p.m.)	32
Midday peak only	31
9. Trip length, 6 miles or less (median—5.8 miles) (mean—7.2 miles)	50
10. Fleet characteristics:	
7 vehicles or less (median—7 vehicles)	50
Between 1-5 vehicles	42
81,000 miles year or less	50

Source: Institute of Public Administration, "Survey of Area Agency Suggested Transportation Providers," June 1980.

The Department of Transportation pulled back those regulations in 1981 after a court ruling by the U.S. Appellate Court of the District of Columbia. The court determined that the Department of Transportation, section 504 regulations placed onerous affirmative burdens on local programs, regulations which exceeded the Department of Transportation's authority.

On July 17, 1981, the Department of Transportation proposed new regulations for section 504. The proposed regulations, if adopted, basically will be a return to the "special efforts" regulations in effect prior to 1979. Wheelchair lifts on buses and elevators and rail stations will no longer be required as a prerequisite to Federal funding.

3. SECTION 18: RURAL TRANSPORTATION

Another development in 1981 was a survey of 50 States concerning section 18 of the Surface Transportation Assistance Act.[7] As mentioned earlier, section 18 was inaugurated to provide capital and operating funds for areas that have populations less than 50,000. This measure was seen as a step forward in providing rural transportation to the whole population, and therefore to older people. In the 50 States surveyed, the researchers concluded that section 18 had been very slow in stimulating growth, and that the main reason was the reluctance of the States to appropriate matching funds. After 2 years' experience with the program, States have only spent a small amount of the funds. In a budget cutting mood, Congress trimmed the fiscal year 1981 appropriations for section 18 to $72.5 million.

The study concluded that the reasons for the slow start in adapting to section 18 were: (1) the provisions of 13C requirements (labor provisions which require State level guarantees of wage standard compliance); (2) compliance with section 504 regulations; (3) the delay in publishing final regulations on the section 18 program; and (4) difficulties in finding adequate local management.

Despite the slow start, there has been a definite upward trend in the number of vehicles and systems over the period 1979 to 1981. Variation among States is considerable, however. At the end of fiscal year 1980, 15 States were still reporting no transportation systems with section 18 support. In many cases, the requirement for non-Federal matching funds is the active constraint in the growth of rural transportation systems.

The study also reported that despite the apparent upward trend in funding at the State level, there are signs of trouble ahead. Only a handful of States have firm projections of which or how much State money will be available to maintain the programs past 1982. Some States are refusing to process any new program development; others are actually cutting existing programs. In States where the rural transportation system has produced good results, cutbacks may be offset by State funds. In other States, where the transportation systems are still in development stages, the outcome is dubious.

4. PRESSLER AMENDMENT TO THE OLDER AMERICANS ACT

In another development in legislation, Senator Larry Pressler of South Dakota offered an amendment to the Older Americans Act of 1981. The purpose of the amendment was to add transportation systems for the rural elderly to the list of title IV demonstration projects. This amendment was accepted and became part of S. 1086 and eventually Public Law 97-115. The Commissioner of the Administration on Aging will have the discretion to fund model projects in the area of rural transportation.

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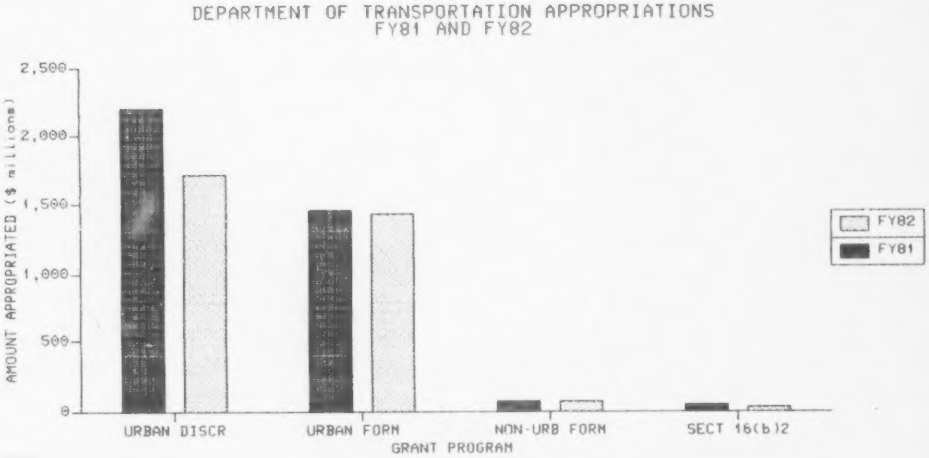
[7] "New Developments in Financing Rural Public Transportation," a paper presented by Alice E. Kidder, Franklin Program in Transportation and Distribution Management, Syracuse University, at the fifth National Conference on Rural Public Transportation, Eureka, Calif. Aug. 18, 1981.

5. Department of Transportation Funding

There was an overall reduction in funding for urban mass transit in fiscal year 1982, as shown in table 3.

TABLE 3.—1982 DEPARTMENT OF TRANSPORTATION APPROPRIATIONS

	Fiscal year 1981	Fiscal year 1982
Urban discretionary grants (sec. 3)	$2,190,000,000	$1,680,000,000
Sec. 16(b)(2) (2 percent of sec. 3)	43,800,000	33,600,000
Nonurban formula grants (sec. 18)	72,500,000	68,500,000
Urban formula grants (sec. 5)	1,455,000,000	1,036,000,000



Section 16(b) of the Urban Mass Transportation Act of 1964, as amended, allows 2 percent of urban discretionary grant funding to be set aside for capital assistance grants to States, local agencies, and private nonprofit groups for transit services to the elderly and handicapped.

The Department of Transportation Appropriations Bill (H.R. 4209), which became Public Law 97–102, appropriated $33.6 million for section 16(b)(2), a reduction of $10.2 million from the 1981 level of services to the elderly and handicapped.

Section 18 of the Urban Mass Transportation Act of 1964, as amended, provides formula transit grants, both capital and operating, for nonurbanized areas. This section was added through passage of the Surface Transportation Assistance Act of 1978. Assistance, both capital and operating, is apportioned to States on a population formula basis for public transportation projects in areas with populations of less than 50,000. Funds remain available to the State to which they are apportioned for 4 years and then are redistributed on the basis of the population formula. Public Law 97–102 appropriated $68.5 million to section 18.

The formula grant program for urbanized areas was established by section 5 of the Urban Mass Transportation Act of 1964, as amended. Capital (acquisition, construction and improvement of facilities and equipment for use in mass transportation service) or operating (payment of operating expenses to improve or continue such service) assistance may be provided to urbanized areas or parts thereof on the basis of a formula.

There was a reduction in funding by $419 million from $1,455 million in 1981 to $1,036 million in 1982. This may have some effect on reduced fares (section 5(m)) for elderly in some localities.

Chapter 21

EDUCATION

OVERVIEW

The education of adults and older citizens has not always been a high priority. With the "graying" of the American population and a trend toward programs geared to education for self-sufficiency, it seems the appropriate time to refocus our educational programs. However, progress has been slow in the field of education and aging. While title I of the Higher Education Act has set far-sighted goals in the area of continuing education, it has not been funded in this time of budget restraint. Through the 1981 amendments to the Older Americans Act, specific reference is made to "education and training" for older people as a goal of the act. However, no additional funds were added to the act for this purpose. Most of the education programs that affect older adults have received budget cuts, while other programs were folded into block grants. There is still some debate as to the direction of the Vocational Education Act, as well as the future of the Department of Education.

A. INTRODUCTION

The character of education in the 1980's will be shaped to a large extent by the size and age of the population it serves. Between 1980 and 1990, the American population is expected to increase and the age composition will be significantly different from the previous decade. The median age of the population is a measure of this change. In 1970, the median age of the population was 27.9 years; by 1990, the median age is expected to be 32.8 years. The "graying" of the American population, the increasing proportion of families in which both spouses are employed, population mobility, reentry into the labor market at midlife, decline in the rate of economic growth, and pressures for support of other governmental services—these are among the social and economic forces that will affect public attitudes toward education and the quantity and quality of education that will be provided from public funds.

Rather than being an activity engaged in exclusively by the young, education will likely become more accepted as a lifelong endeavor. The promise of a high school equivalency certificate may encourage adults who were unable to complete their high school education to return to school. In an earlier era, these persons would not have sought additional formal education, but the employment market of the 1980's will require, from virtually everyone, not only competency in the basic skills but also attention to job-related skills that enable employees to adapt to changing employment patterns and job opportunities.

Society's interest in supporting these activities may increase as attention is given to problems of the underemployed and the unemployed.

The national interest in education in the United States is somewhat different from that for other governmental services and programs. In the United States, education is a State responsibility, a local function, and a Federal concern.

The role of the Federal Government in education has been to ensure equal educational opportunity, to enhance the quality of education, and to address national priorities in training. The State and local governments have had primary responsibility in educating adults and older citizens, with some participation from the private sector. Educating adults and older citizens has not been ranked high as an educational priority in the past. As table I and graph I illustrate, only a small number of older people participate in any form of education.

TABLE 1.—EDUCATIONAL PARTICIPATION OF POPULATION 17 YR OLD AND OVER

[By type of participation and age group, year ending May 1978]

Age group	Total	Participants in adult education	Full-time high school or college students	Full-time vocational students	Nonparticipants not full-time students	Other
			Number in thousands			
17 to 24 years	31,730	3,563	9,954	611	16,666	1,566
25 to 34 years	32,881	6,596	1,182	433	23,628	1,333
35 to 54 years	46,787	6,091	381	238	37,423	2,783
55 to 64 years	20,391	1,395	24	21	17,804	1,160
65 yr and over	22,707	551	11	19	21,252	871
Total	154,496	18,197	11,553	1,323	116,774	7,712
			Percentage distribution			
17 to 24 years	100	11.2	31.4	1.9	52.5	4.9
25 to 34 years	100	20.1	3.6	1.3	71.9	4.1
35 to 54 years	100	13.0	.8	.5	80.0	5.9
55 to 64 years	100	6.8	.1	.1	87.3	5.7
65 yr and over	100	2.4	(1)	.1	93.6	3.8
Total	100	11.8	7.5	0.9	75.6	5.0

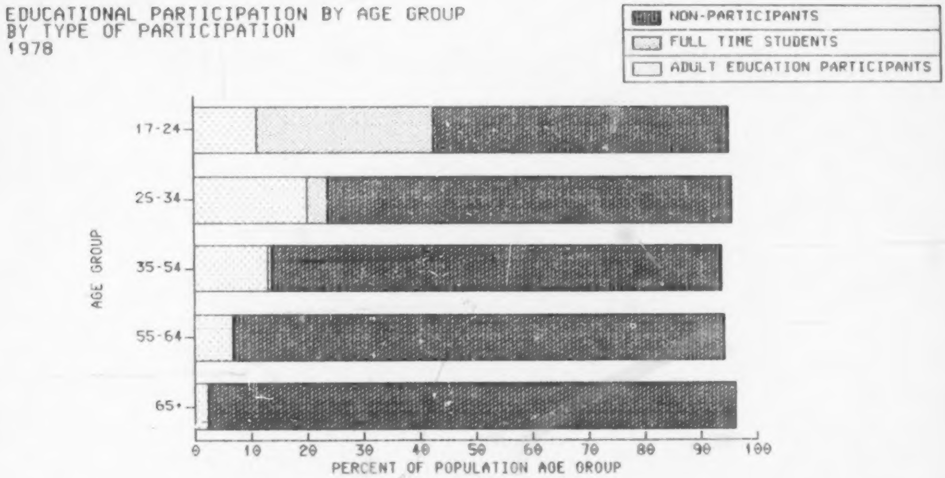
[1] Less than 0.05 percent.

Note.—Details may not add to totals because of duplicate counts, i.e., a participant in adult education may also be a full-time high school or college student and/or a full-time vocational student.

Source: U.S. Department of Health, Education, and Welfare, National Center for Education Statistics, "Participation in Adult Education" and unpublished tabulations.

The decade of the seventies produced a proliferation of material on education and aging. But most of this material focused on education as self-enrichment. During that decade, the primary piece of legislation focusing on lifelong learning was title I–B of the Higher Education Act of 1976 (Public Law 94–482). The definition of lifelong learning in the act was all-encompassing and reflective of the focus on self-enrichment. The act was never funded, partially due to the political difficulties of funding self-enrichment programs.

Recently, a trend toward programs geared to self-sufficiency has developed in the field of education and aging. This trend is reflected in research, publications, and legislation, again through title I of the Higher Education Act (Public Law 96–374). The new focus of the act is on adults (including older adults) whose educational needs have been inadequately served. Unfortunately, during this time of budget restraint, title I was not funded in the 1981 budget process.


EDUCATIONAL PARTICIPATION BY AGE GROUP
BY TYPE OF PARTICIPATION
1978

This chapter will examine three areas of interest: Education for older adults; education for personnel to provide services, teach, and conduct research; and education about aging for persons of all ages. The White House Conference on Aging report of the technical committee on creating an age-integrated society, "Implications for the Educational Systems," noted that as our society ages at an accelerated rate, it must assess and redefine the teaching and learning roles of older people, assure a match between the needs of older citizens and the training of those who prepare to serve them, and redouble its efforts to create a better informed and more sensitive public.[1]

B. EDUCATION FOR OLDER ADULTS

Many educators and gerontologists see education as a multifaceted tool meeting the needs of a diverse population with a large range of circumstances and interests. Education is seen as a means for acquiring and improving skills for living one's later years fully, coping with personal and societal changes, being actively involved in community life, and utilizing available options.

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[1] Report of the technical committee on creating an age-integrated society, "Implications for the Educational Systems," White House Conference on Aging, page 1.

Some of the White House Conference on Aging Technical Committee on Education findings revealed that:

—Population trends and other societal changes suggest that we should redefine "old age" and reassess the role of the aged in our nation. As a part of this process, all social institutions sponsoring educational programs, formal and informal, must be redesigned and restructured to accommodate the needs of the elderly and to achieve an age integrated society.

—There has been an encouraging increase in the number of educational programs for older adults and the range of content offered, although as yet these programs fail to meet the needs of many of our elderly citizens. It is estimated that fewer than 2.5 percent of those 65 and over now enroll for organized instruction, and those who do participate are largely from the more advantaged segment of the older population.

—Funding policies at the Federal, State, and local levels fail to reflect the responsibility of society for ensuring educational opportunities over the life span. Little attention has been given to age discrimination issues in educational programs, including those funded by various Federal agencies, or to the issue of entitlement to educational opportunities at no cost to the older adult.

—Rapid technological change is intensifying the need for lifelong learning, but the lack of educational opportunities for older workers makes it difficult for them to update their occupational skills and knowledge bases, or to pursue new careers.

1. CURRENT SITUATION

While there may be strong arguments for the importance of formal and informal education for older citizens, in reality, it has traditionally been a low priority. Public and private resources for the support of education have been directed primarily to the establishment and maintenance of programs for children and youth, including those of the traditional college ages. Much of the limited support available for adult education is job-oriented and does not usually serve older persons. Thus, education has not been given high priority among services for older adults.

Progress has been slow in changing the focus of Federal education programs toward older adults. The major pieces of legislation that have made a commitment to lifelong learning are the Older Americans Act of 1965 (Public Law 89–73), and title I of the Higher Education Act (Public Law 96–374). The year 1981 has seen both progress and steps backward with these acts and with other education programs that affect older adults.

2. OLDER AMERICANS ACT

The Older Americans Act Amendments of 1981 (Public Law 97–115) have broadened the scope of activities under the act. Through a joint effort on the part of members of the Senate Special Committee on Aging and the House Select Committee on Aging, the amendments included specific language concerning "education and training" within the act's declaration of objectives.

Education and training is defined as "a supportive service designed to assist older individuals to better cope with their economic, health, and personal needs through services such as consumer education, continuing education, health education, preretirement education, financial planning, and other education and training services which will advance the objectives of the act."

The 1981 amendments to the Older Americans Act also maintained education and training as a possible area of research under title IV of the act. The Commissioner of the Administration on Aging has the discretion to grant funds for model demonstration projects in the area of education and training:

> The Commissioner shall give special consideration to projects designed to provide education and training to older individuals designed to enable them to lead more productive lives by broadening the education, occupational, cultural, or social awareness of such older individuals; provide preretirement education information and relevant services (including the training of personnel to carry out such programs and the conduct of research with respect to the development and operation of such programs) to individuals planning retirement.

While the amendments allow for special consideration of education and training, title IV sustained a cut from the $40.5 million appropriated in fiscal year 1981 to an authorized level of $23.2 million for 1982.

3. TITLE I OF THE HIGHER EDUCATION ACT

The 96th Congress enacted legislation to increase educational opportunities for those adults who have been unable to fully benefit from existing programs. Education outreach programs, in title I of the act, represented a stronger initiative for continuing education programs which address the needs of underserved adults, including the elderly, women entering or reentering the work force, the handicapped, the economically disadvantaged, and individuals whose previous educational experience has acted as a barrier to lifelong learning.

The title I–B educational outreach program under the Higher Education Act was funded at $10 million for fiscal year 1981. The Reagan administration requested a rescission, but the program retained $2.2 million for the maintenance of educational outreach offices in all of the States. The Omnibus Budget Reconciliation Act of 1981 (Public Law 97–35) placed a ceiling of $8 million on the authorization for this program for fiscal year 1982. The continuing resolution (Public Law 97–92) gave zero funding to the program.

The 1980 amendments to the Higher Education Act made changes to title IV–A that allowed part-time students to be eligible for supplemental education opportunity grants (SEOG's). The previous requirement that students be enrolled on at least a half-time basis to qualify for SEOG's was regarded as a barrier to working adults, homemakers, and older persons who wish to continue their education. The SEOG program provides grants of up to $2,000 for students of exceptional financial need. The supplemental grant is administered at the individual postsecondary institution participating in the program.

There was a significant reduction in the budget of the program, from $370 million in fiscal year 1981 to a projected appropriation of less than $290 million in 1982, which may subsequently reduce the opportunity for older adults to participate in the program.

4. FUND FOR THE IMPROVEMENT OF POSTSECONDARY EDUCATION (FIPSE)

The Senate Appropriations Committee recommended $12 million for the fund for the improvement of postsecondary education (FIPSE), a decrease of $1.5 million below the comparable fiscal year 1981 appropriation. The fund was established in 1972 to improve the effectiveness of postsecondary education. It does so through support of innovative projects which demonstrate practical steps taken by educators and communities to strengthen education programs beyond the high school level. Many FIPSE projects are continued with local funding after Federal support has ended. Elder hostels are a good example of a project first initiated under FIPSE and then supported by local support.

5. VOCATIONAL EDUCATION

Federal participation in vocational education programs consists of providing less than 10 percent of the public funds for such programs (the remainder comes from State and local sources) and exercising leadership with the intention of ensuring equity, equal opportunity, and accountability in the delivery of services at the local level.

The last major amendments to the Vocational Education Act of 1963 (VEA) were in 1976, when many of the previously existing VEA programs were consolidated and restructured. The objectives of the 1976 legislation included expanded opportunities for populations with special needs, stronger requirements for planning and evaluation, and funding priorities for individuals and educational institutions with the greatest needs. These objectives, as well as the effects of VEA programs on participants, the appropriate level of Federal funding, and the findings of a major study of vocational education by the National Institute of Education, are among the major VEA reauthorization issues being addressed by the 97th Congress.

Except for reductions in funding in 1981, the Reagan administration did not make a major legislative proposal regarding VEA programs, although reports indicate the administration is considering program simplification, program consolidation, or block grants.

In its first major action regarding Federal VEA programs, the 97th Congress appropriated $686 million for VEA programs in fiscal year 1981 (Public Law 97-12), a 12.5 percent decrease from the $784 million appropriated in fiscal year 1980.

Final action on fiscal year 1982 funding is not yet complete. Under a continuing appropriations resolution that provides funds through March 31, 1982 (Public Law 97-92), the current fiscal year 1982 VEA funding level is $672 million. The House has passed a bill providing $707 million for VEA programs in fiscal year 1982. (H.R. 4560); the Senate Committee on Appropriations has reported a version of the bill providing $700 million in fiscal year 1982. The fiscal year 1982 funds are advance funded for use during the 1982-83 school program year.

The 97th Congress has already extended the VEA authorization through fiscal year 1984 by one of the provisions of Public Law 97–35, the Omnibus Budget Reconciliation Act of 1981.

VEA programs were originally expected to undergo thorough examination and modification during the 97th Congress, prior to an extension of authorization. The simple extension of authorization provided by the Omnibus Budget Reconciliation Act of 1981 is sufficient for the continued funding of VEA programs. However, additional consideration is still possible.

There are two issues that may be raised in the reauthorization discussions: A national priority on a trained and skilled work force and increased access for underserved populations, specifically women, minorities, handicapped, and older adults.

While vocational education programs have not had a good record of serving older adults, the hearings conducted in the House and the Senate have given much time and discussion to using the consumer and homemaker education programs under VEA to reach out to disadvantaged people, including older adults. There is also the possibility that funding designations will be liberalized under the basic grants section of the act, thus making more funds available to programs that relate to older populations.

6. OTHER EDUCATION PROGRAMS

Other educational programs that could be identified as potentially beneficial to older persons went through changes in 1981. The Adult Education Act is directed toward adult basic education and literacy. The age group that is predominantly served by the Adult Education Act is 16 to 25 years of age. Most of the funding under the act has gone to young adults in schools, though it helps a small number of older adults. This program's authorization levels were reduced from $120 million to $100 million under the Omnibus Reconciliation Act of 1981 (Public Law 97–35).

The career education program was authorized under the Career Education Act (Public Law 95–207). The program was based on demonstration projects that successfully showed that young students had better career goals when they received ongoing information concerning a variety of occupations. The program was expanded to initiate career education programs in all the States. It was designed to incorporate information concerning career choices throughout a child's education, from elementary school level to the secondary school level. The program attempted to show the relationship between basic academic skills and the real world of work. Older citizens were used as a resource in sharing their own work experiences and skills. Career education was folded into the elementary and secondary education block grant, chapter II.

Community education is based on the concept of encouraging the use of schools as community resource centers and encouraging community service organizations (schools, recreation, aging, health, job training and referral) to pool and coordinate their resources. It was one of the few Federal programs which allowed other Federal funds (Elementary and Secondary Education Act, Older Americans Act, Comprehensive Education and Training Act, etc.) to be used as the match for Federal funds. This was done to encourage cooperation among community agencies to identify the greatest local needs and to identify how funds would be channeled through after-hours programs at the school sites.

This program was also put into chapter II of the Education Consolidation and Improvement Act.

Many States have strong career education and community education programs, despite the reduction of Federal funds. Because educational programing will be at the discretion of the States and local entities under the block grant, elderly organizations can seek, during public review periods in the summer, to have some ECIA chapter II money focused on these type of programs.

C. EDUCATION FOR PERSONNEL TO PROVIDE SERVICES

Gerontology as a field of study encompasses many disciplines in the social and behavioral and biological sciences and in other professions.

Information concerning the aging process, the heterogeneity of the older population, and the variety of their needs and services must be disseminated to service providers to assure an adequate delivery of services to older people.

The White House Conference on Aging Technical Committee on Education found that:

—There is growing recognition of the special importance of educating health professionals to serve the needs of the growing elderly population. As yet, educational resources and institutional commitment are inadequate to produce the needed geriatrically trained personnel.

—Educational institutions have a responsibility not only to prepare students for roles in the field of aging, but also to provide up-to-date knowledge to practitioners on an ongoing basis, as a means of increasing the effectiveness of services to the elderly.

—The orderly development of gerontology as a field of study has been impaired by the shifting funding priorities of the Federal Government, which have fluctuated between concern for the quality of career preparation programs and concern for the numbers of such programs.

CURRENT SITUATION

The Older Americans Act represents the only Federal social service program solely directed toward the training of personnel who work with older citizens. Title IV of the Older Americans Act supports research, training, discretionary projects and gerontology centers.

The 1978 amendments to the Older Americans Act (Public Law 95–478) had required the Commissioner of AOA to develop a national manpower policy on aging which would represent the present and future need for personnel in all programs serving the elderly.

The 1981 amendments repealed the training section and include, instead, general authority for the Commissioner to make grants or contracts for recruiting and training personnel in the field of aging.

The final passage of S. 1086 (Public Law 97–115) had an authorization of $23.2 for fiscal year 1982, while the fiscal year 1981 appropriation was $40.5 million for title IV. The Senate Labor and Resources report on the authorization of the Older Americans Act (S. 1086) gave the following explanation for the reduction in funding for title IV:

> In the effort to bring Federal spending under control the Older Americans Act has been left, for the most part, untouched by the committee. The committee feels that it is necessary, however, that the act absorb a small portion of the overall funding reductions which the budget process demands, and that it is more appropriate to reduce title IV funding than to reduce direct services to the elderly.

D. EDUCATION ABOUT AGING

Nearly 60 years ago, Walter Lippman applied the term "stereotype" to describe the "picture which people carry in their heads." Stereotypes are shorthand ways of thinking that attempt to make the world more simple than it actually is. Negative stereotypes result in the underutilization of older people as a resource.

The White House Conference on Aging Technical Committee on Education found that:

—Despite ample evidence of the contributions and potentials of older adults, devastating myths and stereotypes endure. As a result, inequities are perpetuated, the elderly are denied full participation in society, and younger persons dread old age. Efforts to combat misconceptions through education are under way in public and private institutions, but much remains to be done to articulate the process of normal aging, underscore the strengths of the elderly, and expose any indignities associated with growing old in America.

—Many elementary and secondary schools are actively exploring ways to help their pupils view aging as a normal life experience—often by bringing older people into the classroom. Several kinds of intergenerational programing have been introduced successfully, but as yet information about these innovative approaches is not being disseminated widely enough.

—In higher education similarly, there has been a limited development of curriculum materials on aging for teacher education, and of special training programs for teachers, but efforts are scattered as yet.

—Religious denominations, national youth groups, and community service clubs are among those who have begun to provide their members with information about aging and the situation of older people.

—It is highly encouraging that the mass media—comprising a powerful educational force—are beginning to present the elderly not as stereotypes but as real people. The growing interest in aging poses risks, however, and those who are committed to the well-being of older Americans must not only encourage further efforts but must also be concerned about the validity of the information and attitudes conveyed. As yet there are not adequate channels for conveying knowledge about aging and the aged to all those who shape the attitudes of the public.

CURRENT SITUATIONS

While there has been much research concerning the aging process, the dissemination of information and the subsequent assimilation of the facts has been slow.

The National Council on Aging released in November 18, 1981, the results of a national survey conducted by Lou Harris on the concerns and attitudes of—and about—older people. The results suggest that the reality of aging in America does not, in fact, corroborate many of the generalizations which have been used to describe the supposedly typical psychological, physical, social and economic circumstances of the elderly. Mr. Harris stated in his press interview that:

> * * * in analyzing and reporting these results, it surely must be evident that this is not an inert, hopeless group of older people, simply waiting out their time to die. To the contrary, these elderly are vibrant, alive, and want most of all to make their contributions to society for a long time to come and they are growing in numbers *and* in vitality.

Part VI

CRIME

The fear of crime has long been a serious concern of older persons, particularly those living in the older sections of our major cities. Recent evidence suggests that assaults and purse-snatchings directed against older Americans are increasing, and the fear of criminal attack is likewise escalating—to the point in many areas where the life opportunities and the lifestyles of the more physically vulnerable elderly are severely limited by this factor alone.

There is also evidence of a similar increase in consumer frauds directed against elderly persons. Although this kind of criminal behavior receives much less publicity than violent crime, it can also have very serious effects. The unscrupulous find elderly persons especially attractive targets, and a disproportionate share of frauds and ripoffs are directed against them.

Rather than reinforce the already too-prevalent image of older persons as helpless victims of these acts, the Special Committee on Aging has worked to bring to public attention a variety of constructive measures that both would help prevent crime and assist those who have suffered because of it. Such measures include neighborhood crime watch and victim assistance volunteer programs, community education campaigns, distribution of simple security and property identification tools, and more active cooperation between older citizens and law enforcement authorities.

Chapter 22

VIOLENT CRIME

OVERVIEW

Fear of crime continues to be a major concern of older citizens. Surveys show that many older citizens are so afraid of crime that they shut themselves up in their homes and rarely go out. Yet Federal support for crime prevention and victim assistance programs is decreasing. During the past 12 years, the Law Enforcement Assistance Administration (LEAA) has funded research and supported programs specifically aimed at preventing crime against the elderly. Funding for a major portion of LEAA ended at the end of fiscal year 1981. As a result crime prevention and victim assistance programs will cease to exist unless steps are taken to integrate them into ongoing community services.

Because of the seriousness of the problem, the Special Committee on Aging decided to take an active role to find solutions. As a first step the committee issued a publication on what older Americans can do to prevent crime and what communities can do to better help elderly victims. The committee then convened a major hearing on September 22, 1981, in Washington, D.C., calling in witnesses from around the country to share their experiences and expertise. The hearing was entitled "Older Americans: Fighting the Fear of Crime," and throughout, the Senators heard about the need for communities to help. Senator Heinz, chairman of the Senate Committee on Aging, stated in his opening remarks:

> All of us look forward to the day when older Americans can become full and productive partners in the work that remains to be accomplished in our society. We need older persons to help in this task, but today they are locked out from participating in our society and almost literally locked into a "dark age"—an age of fear.

A direct result of the hearing was an amendment to the Older Americans Act which permits crime prevention and victim assistance programs to be incorporated into the local services supported by OAA funds.

A. FEAR OF CRIME

Fear of crime ranks as one of the most serious problems the elderly experience. A comprehensive 1981 national survey on the problems of the elderly conducted by Louis Harris & Associates for the National Council on the Aging revealed that older citizens ranked fear of crime as one of the most serious problems they experience. In this survey, crime was considered by people over 65 a greater social problem than poor health, lack of money, and loneliness.[1] Studies in individual cities have also confirmed that a fear of crime is a most serious concern for many elderly.[2]

During the committee's hearing on September 22, 1981, Senators heard firsthand accounts of this fear from older persons who had been victims. The words of the victims captures the horror and disruption that crime can have on the life of an older person.

Harriet Cunningham, a 77-year-old Chester, Pa., resident who was mugged and robbed, described for the committee the events and its effect on her:

> As I started across the street, someone grabbed my bag, wrapped the strap around my neck and threw me down against the curb. The only thing I remember is opening my eyes and seeing my hand on the curb. I knew it was my hand only because the rings were mine. I didn't remember anything else until nearly 2 weeks later.
>
> On the 6th of September I woke up as if I had been asleep and I have been aware of what happened from then on. I found out that my shoulder had been operated on and totally replaced with metal. A friend took me home but had to leave me by myself. The pain was so bad that I had to finally call an ambulance to go back to the hospital at 5 a.m. for emergency care. That was the first indication I had of the pain that I was going to have to live with. Since then I have had almost constant pain and I have never regained the use of my arm. I have had extensive therapy as an inpatient for 18 days. I had surgery on my hand. I figure that I was in the hospital for a total of 49 days. I then had therapy as an outpatient twice a week for 11 months. * * * I am still afraid to go outside.

Holland Dills of the Bronx vividly portrayed his feelings to the committee members:

> The apartment I now occupy has been my home for 17 years. I have often said, living where I do, I have seen more of the police than when I was a police reporter. People mugged in the building lobby. An elderly man given the treatment by a bevy of young heathens. The old having become game for the young hoodlums. But you hang on. You hope it will not happen to you. But it did. Two young males followed me into my own elevator, throttled me, and went through my pockets. I cooperated, handed over a 10-spot, then begged for my old-time, good leather pinseal wallet, in which I never carry money, but everything else of a fiscal sort—and got it back—

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[1] "Aging in the Eighties: America in Transition," a survey conducted for the National Council on the Aging by Louis Harris & Associates, November 1981.

[2] Godbey, Geoffrey, Arthur Patterson, and Laura Brown, "The Relationship of Crime and Fear of Crime Among the Aged to Leisure Behavior and Use of Public Leisure Services," Washington, D.C.: The NRTA/AARP Andrus Foundation, 1980.

Cook, Fay L., Wesley Skogan, Thomas D. Cook, and George Antunes, "Setting and Reformulating Policy Agendas: Criminal Victimization of the Elderly," New York: Oxford University Press, in press.

Hahn, Paul H., and Elizabeth R. Miller, Project Search and Inform, Cincinnati, Hamilton County, Ohio, 1979–80, Cincinnati, Ohio: Xavier University Graduate Corrections Department, 1980.

> along with a warning that did I report the incident, they would see me killed.
>
> I am 93. Yesterday or so, on the street, I noticed ahead of me a jam session of boys and one girl, if you looked sharp. I changed course and crossed the street, knowing that every step I took made me a "walking target."

William Hickman of Philadelphia described how he and his wife had been sprayed with Mace, robbed, assaulted, and threatened with death, right outside their home:

> No words can describe the terror we went through. We were caught offguard. Even if you are 9 feet tall, if they catch you offguard, you cannot do anything. Some people say carry a gun or get Mace. But it would not have done any good. No words can describe how terrible this made us feel. We are lucky because we had some financial resources. We had money to have our locks changed; we had insurance. But you would not believe the trouble you have to go through.

Another witness was an elderly Chicago woman who was raped in her apartment one night. The committee did not identify her by name because of fear of retaliation from her assailant—who at the time of the hearing, had not been apprehended. She told the committee that as a result of the rape, she is "afraid all the time" and is hesitant to leave her apartment even when escorted by a friend or relative.

Those who have studied the problem of crime and the elderly have found this kind of reaction typical. One study found, in fact, that because of a fear of being victimized many elderly said they did not go out of their homes once school was out.[3]

While the experts agree that the level of fear about crime among the elderly is very high, there has been controversy about the amount of crime actually committed against older citizens.

Experts point out the inadequacies of the statistics in assessing the differences on victimization types and impacts. Testifying at its hearing, "Older Americans Fighting the Fear of Crime," George Sunderland, senior coordinator, Criminal Justice Services of the American Association of Retired Persons said:

> Some relationships between old age and criminal victimization are clear, in terms of both negative and positive aspects. Older persons in the United States have very low rates of victimization in the very serious crimes of homicide, rape, and aggravated assault. This is true in every locality I have examined, except for the rare and special circumstances when a psychotic rapist targets older women.
>
> Many localities even of moderate to large size do not experience, for periods of 5, 10, and 15 years, a stranger-to-stranger homicide in which the victim is over 65 years of age. On the other hand, older persons are disproportionally victimized by certain crimes. In some localities, older persons representing only one-fifth of the population suffer three-fourths of the victimization.

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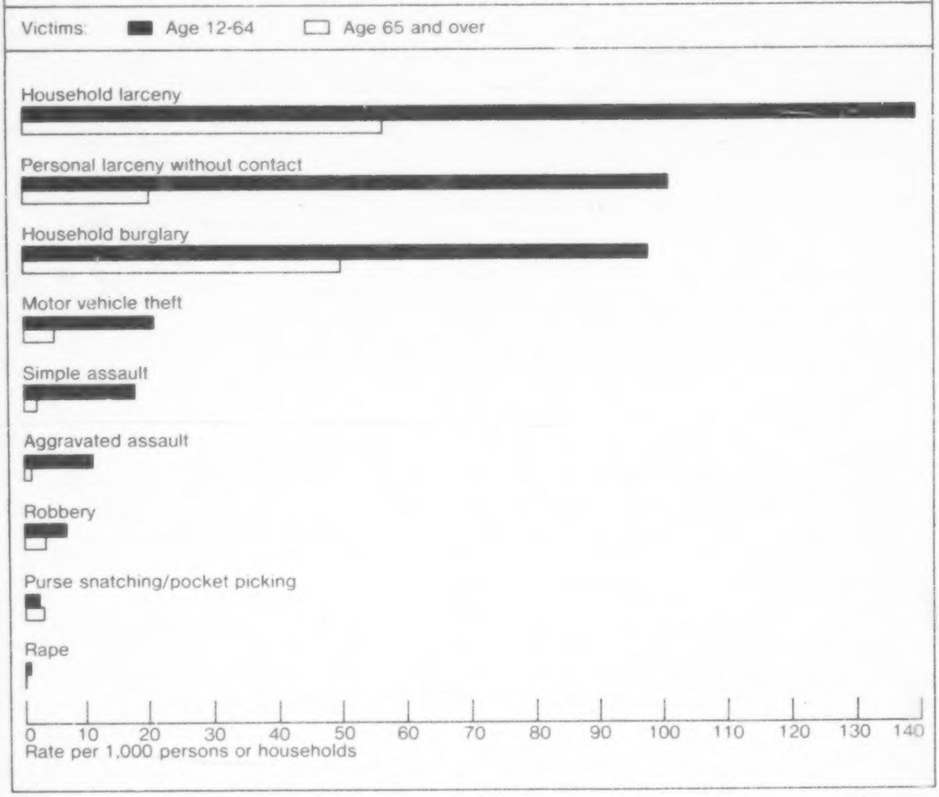
[3] Op. cit.: Godbey.

In December 1981, the Bureau of Justice Statistics (BJS) released a bulletin on the subject of victimization rates of the elderly. The bulletin, presenting national victimization data of a yearly average from 1973–80, shows that for every major crime category, with one notable exception, "personal larceny with contact," older people are victimized less frequently than younger people (see accompanying chart and table 1).

Victimization rates, 1973-80



Source: U.S. Department of Justice, Bureau of Justice Statistics, December 1981.

However, a careful analysis of the data is necessary before one can draw any major conclusions concerning the crime problem of the elderly. Older persons are victimized disproportionately for several types of crimes. Within the category of robbery, which is officially defined as the taking of property by force or threat of force, the elderly suffer a relatively high rate of robbery with injury. In fact, victims over 65 report higher rates of robbery with injury than do people in both the 35 to 49 and 50 to 64 age groups. Over half (55.8 percent) of robberies against persons over 65 result in injury, a ratio which is the highest of all age groups (table 2) so, although older Americans are less likely to be robbed, when they are robbed, they are very likely to be injured.[4]

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[4] Jaycox, Victoria H., Lawrence J. Center, and Edward F. Ansello, "Effectiveness Responses to the Crime Problem of Older Americans: A Handbook," National Council of Senior Citizens, January 1982, p. 39.

TABLE 1.—PERSONAL AND HOUSEHOLD CRIMES: VICTIMIZATION NUMBERS AND RATES FOR PERSONS UNDER AGE 65 AND 65 AND OVER, 1973–80 YEARLY AVERAGE

Sector and type of crime	Under 65		65 and over		Percent difference between rates[1]
	Number	Rate	Number	Rate	
Personal sector:					
Crimes of violence	5,582,700	37.1	168,500	7.6	−79.5
Rape	160,800	1.1	[2]2,200	[2].1	
Robbery	1,043,100	6.9	79,500	3.6	−48.3
Assault	4,378,700	29.1	86,800	3.9	−86.6
Aggravated assault	1,668,900	11.1	30,100	1.4	−87.7
Simple assault	2,709,900	18.0	56,600	2.6	−85.8
Crimes of theft	15,600,500	103.6	521,300	23.5	−77.4
Personal larceny with contact	442,400	2.9	71,600	3.2	+9.5
Personal larceny without contact	15,157,800	100.7	449,700	20.2	−79.9
Household sector:					
Household burglary	5,046,200	97.8	748,600	50.0	−48.9
Household larceny	8,486,800	139.6	843,400	56.3	−59.7
Motor vehicle theft	1,270,400	20.9	77,000	5.1	−75.4

[1] All of the differences are statistically significant at the 95-percent confidence level, except that for personal larceny with contact, which is not significant.

[2] Estimate, based on a yearly average of fewer than 10 sample cases is statistically unreliable. Percent difference not shown.

Note.—Provisional 1980 data are included in the averages.

Source: U.S. Department of Justice, Bureau of Justice Statistics, December 1981.

TABLE 2.—VICTIMIZATION RATES BY AGE, FOR ROBBERY AND ROBBERY WITH INJURY, AND PERCENT OF ROBBERIES IN WHICH VICTIM SUSTAINED INJURY, 1977

Age	Robbery[1]	Robbery with injury[1]	Percent of robbery with injury
12 to 15	10.9	2.7	24.7
16 to 19	9.5	3.2	33.6
20 to 24	9.1	3.7	40.6
25 to 34	6.3	2.6	41.2
35 to 49	4.5	1.4	31.1
50 to 64	4.3	1.3	30.2
65 plus	3.4	1.9	55.8

[1] Rate per 1,000 population.

Source: U.S. Department of Justice, Law Enforcement Assistance Administration, "Criminal Victimization in the United States, 1977," 1979.

In addition, for certain crimes like personal theft (i.e., picked pockets and snatched purses), older Americans are as likely to be victimized as are younger people. Older women are victims of purse snatching more often than women of any other age group.

A number of researchers state that one reason the elderly appear undervictimized in comparison to the overall population is that they have already circumscribed their activities. Large numbers of the elderly (particularly the urban elderly) have restricted their trips in the community to those that are essential. They have virtually eliminated outside travel after sunset, and they avoid specific areas of the community. Therefore, they have reduced their opportunity of becoming victims of crime and are less at risk than other population groups.[5]

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[5] "In Search of Security: A National Perspective on Elderly Crime Victimization," report by the Subcommittee on Housing and Consumer Interests of the Select Committee on Aging, April 1977, p. 18.

Crime statistics do not reflect the difference in exposure rates. In a Midwest Research Institute study, it is noted:

> Although the aging person is somewhat less often criminally victimized, considering the population of a metropolitan area as a whole, that isn't a very informative comparison. The elderly living in or near certain neighborhoods of Kansas City, Mo., for example, can be as much as eight times more vulnerable to serious crimes such as robbery, burglary, or major larcenies than a younger resident of a relatively safe suburb who works and shops in areas with lower crime rates. This disparity is all the more significant considering the fact that most older Americans live generally circumspect and conservative lives. They are usually active avoiders of crime-conducive situations. Their special vulnerabilities stem primarily from the fact that economic and social changes have tended to concentrate the elderly population of a metropolitan area where there are relatively high numbers of unemployed male youths who are dropouts from school. Thus, they are in close contact with precisely that element of society most likely to criminally victimize them.[6]

Other factors have to be taken into consideration in the analysis of the victimization statistics of the elderly, namely, who victimizes the older person, where they are victimized, and what it does to the elderly's levels of fear.

Older people are actually victimized less in terms of statistical frequency. But the crimes against them, being most often perpetrated by violent strangers, youths, or by persons of another race, present a pattern of strong unpredictability and danger. This pattern reinforces a sense of vulnerability, of uncertainty—a sense of fear.[7]

To make matters worse, a study examining the physical location where crimes occurred found that most violent crimes committed against older persons took place in the victims' homes (32 percent), or a yard or common area of the building in which victims' homes were located (20 percent). In contrast, violent crimes against younger groups tended to occur more frequently away from home, in the street, or in commercial buildings. The authors suggest that some of the fear of older persons about crime may be due to their recognition that victimizations will more often than not involve an invasion of their home, their last bastion of safety.[8]

Another important reason for the high level of fear is the severe consequences that the elderly person faces if he or she becomes a victim of crime.

One recent analysis of national victimization survey data had these empirical findings: The elderly are more likely to be injured when attacked; they suffer wounds and broken bones less than others, but suffer more internal injuries and are more likely to lose consciousness or suffer cuts and bruises; and they are not more likely to need medical care, but if they receive it, its costs will constitute a much larger proportion of their income than is the case for other age groups. Another study also found that the economic consequences of crime are severe for the elderly.[9]

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[6] Cunningham, Carl L., "Patterns of Crimes Against Older Americans," Midwest Research Institute, Kansas City, Mo., December 1975, p. 6.

[7] Op. cit., Jaycox, p. 48.

[8] Antunes, George E., Fay Lomax Cook, Thomas D. Cook, and Wesley K. Skogan, "Patterns of Personal Crime Against the Elderly: Findings from a National Survey," the Gerontologist, vol. 17, No. 4, 1977.

One study in Kansas City found that elderly victims lost 23 percent of a month's income and those below the poverty line lost 100 percent. And for those older persons living on fixed incomes, there is no opportunity to recoup losses through future earnings.[10]

Senator Lawton Chiles, ranking minority member of the Special Committee on Aging, summed up the dire consequences of victimization among the elderly. In his statement at the committee hearing, "Older Americans Fighting the Fear of Crime," Senator Chiles pointed out:

> The elderly usually suffer a greater amount of financial, physical, and psychological loss when they are victimized. Younger members of society can recuperate both financially and physically in many cases, but older bodies heal more slowly and when you have left the work force and are on a fixed income, it is hard, if not impossible, to regenerate life savings.

B. OLDER AMERICANS FIGHTING BACK

The fear of crime has mobilized communities and older persons to take positive actions. The U.S. Senate Special Committee on Aging in its hearing, "Older Americans: Fighting the Fear of Crime," examined the ongoing efforts of many communities and older individuals. Senator Heinz highlighted these efforts and the ultimate purpose of the hearing:

> There is another—and brighter—side to this picture. Older Americans themselves are fighting back with their own resources. In many communities they are providing the leadership, organizational skills, and daily efforts needed to create an environment that is free and safe.
>
> Steps have been taken, but much still remains to be accomplished.
>
> The purpose of this hearing is to examine what has been done and what can be done with both public and private resources to aid in the fight against crime, and to make the public aware of successful community efforts in crime prevention and victim assistance to older citizens.

One of the most significant findings of the committee's hearing was that in scores of communities, older people are translating concerns about crime into action. As volunteers for the police, the courts, community programs, and social service agencies, the elderly are finding that they can make a difference—by preventing crimes, improving criminal justice operations, and helping persons who have become victims.

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[9] Cook, Fay L., Wesley G. Skogan, Thomas D. Cook, and George Antunes, "Criminal Victimization of Elderly: The Physical and Economic Consequences," the Gerontologist, vol. 18, No 4, 1978.

[10] Op. Cit., Cunningham.

Using older persons as a resource in the criminal justice system is a relatively new trend. This trend may be the result of simple economics: Criminal justice agencies increasingly realize that their agency budgets are not sufficient to maintain and improve services and public demands and wants.

Or it may stem from the fact that criminal justice administrators recognize several basic points about older volunteers:

—Older people are generally supportive of the criminal justice system and they are available.

—Older volunteers often have needed skills or are readily trained, and they are eager to participate in improving the level and quality of community services.

—Older volunteers are usually dependable and conscientious, exhibiting high workmanship, standards, and ethics.

—Older volunteers are experienced, bringing with them many years of practical and specialized knowledge.

—Older volunteers can perform valuable community relations services as they become personally involved in advocating for the services of the agency.

The committee heard testimony from three older Americans who were an example of volunteers taking an active role in the fight against crime.

Albert Hedges, at 70 years of age, is a full-time "ringleader against crime" in York, Pa. Two years ago, he decided to do something about crime. He went to his local police department to complain about the high level of crime in his neighborhood. They suggested he help organize a "neighborhood block watch program," which made sense to him since, in his own words, "I am an oldtimer who came up the hard way. I had been taught that an ounce of prevention is worth a pound of cure."

At the age of 68, Hedges started a new career in crime prevention. He organized his neighborhood into a block watch program with monthly meetings at which a crime prevention police officer would present films and give specific instructions on how to prevent muggings on the street; how to make sure you have good locks and proper window security; the need to engrave valuables for identification; and the need for citizens to help each other to prevent disturbances, and to call the police immediately for help without delay. He is called a "captain" and is on duty almost 24 hours a day. His efforts were such a success that crime was nearly eliminated from his block, and the Governor of Pennsylvania made a special trip to commend Hedges and his neighbors.

Another volunteer who testified was Dorothy Olmstead, a 72-year-old retired secretary who is now a sergeant in a posse in Sun City, Ariz. Olmstead is in charge of the posse's "vacation watch" program Last year, Sun City residents sent in about 10,000 "vacation watch" cards to the posse. The cards indicated who has keys to the house as well as other information which might be needed during emergencies. Olmstead and other posse members then patrol by those homes, routinely checking to make sure everything is in order.

The posse raises all of its operating funds from private contributions. Last year, contributions totaled $750,000. The posse works with the Maricopa sheriff's department which helps out by providing training and supervision. The sheriff feels that the volunteers enable his department to provide essential services to an area that is larger than the States of Connecticut, Rhode Island, and Delaware combined, and he estimates that it saves taxpayers in the county about $1 million a year.

The third volunteer was Elizabeth Battcock, an 82-year-old retired schoolteacher from Yonkers, N.Y. She helped develop and run a victim assistance "CARE" program for the elderly. Battcock and other seniors now go to court regularly to observe cases involving elderly victims "so that the judge and jurists will know that older people care about the way the case is handled." Using a car donated by the local police department, they also give older victims needed support after a crime—everything from helping get a new set of eyeglasses to just giving them someone to talk to about the experience. They also help the police department, they also give older victims needed support after the older victims fill out forms for the New York State victim compensation program, escort victims to and from the court, explain the court system to them, rehearse the question, and make reassuring phone calls so that they are not afraid to testify. The volunteers under the program are given training by the district attorney's office and in turn, the volunteers are now providing inservice training for police officers sensitizing them to the special needs of the older victims.

The assistance given by these three volunteers and the thousands of others like them mean a great deal to their communities. However, none of these volunteers would have been able to contribute without the training and cooperation of effective programs, most of which were started with Federal funds.

1. Model Programs

To assist older people to avoid becoming victims of crime, the U.S. Senate Special Committee on Aging published an information paper "Crime and the Elderly—What You Can Do." One section of the publication "Senior Power—Get Involved As a Volunteer" describes some outstanding volunteer programs. Some of these are:

—In Cottage Grove, Oreg., senior citizens serve as crime prevention specialists, visiting homes and buildings to instruct residents on how to make homes more secure.

—In St. Louis, Mo., a team of police-trained senior citizens perform home security inspections, help other senior citizens install locks and peepholes, and fix broken windows and light fixtures.

—In San Diego, the police department uses senior citizens as aides to help analyze crime statistics. The seniors help take data from crime reports and code them for the computers so that trends can be studied.

—In Far Rockaway, N.Y., senior volunteers monitor a citizens band radio located at the police station so that when a call for police service is received over the C.B. it can be immediately relayed to the police dispatcher.

—Trained senior volunteers in Pasadena, Calif., give immediate attention and support to older crime victims. Working on a 24-hour police call for emergency cases, these volunteers relieve the burden of the police by providing whatever help older victims need to overcome the trauma and losses.

Much of the credit for initial experimentation in the area of crime prevention, victim assistance, and use of older volunteers, should go to the Law Enforcement Assistance Administration (LEAA). Through its citizens initiative program, and its community anticrime program, LEAA provided the seed money for these effective innovations.

Three other Federal agencies have also contributed to research and development of anticrime programs for the elderly: The Community Services Administration; the Administration on Aging; and the Department of Housing and Urban Development.

In 1977, in an unusual coordinated effort, these four agencies and two private foundations joined in funding a $5-million, 3-year research and demonstration program in seven sites, aimed at learning about and reducing the incidence and impact of crime against senior citizens. An evaluation of this program was in great part favorable. It found that the elderly "seem to be genuinely interested in and receptive to crime prevention information and prepared to change their behavior as a result of this information"; that the "education and prevention measures in these communities indicated considerable success"; and that "the initial experiences of the victims with the program were highly favorable."[11]

Beneficial or not, these anticrime service programs face hard times ahead, brought on in great part by the termination in Federal funding for criminal justice services which LEAA provided. Thus, not only is there little prospect of launching new anticrime programs modeled on these exemplary strategies, but the models themselves are falling prey to wholesale cuts in funding.

2. PHASEOUT OF LAW ENFORCEMENT ASSISTANCE ADMINISTRATION PROGRAMS

Grants aimed at anticrime activities have been made available through two major programs administered by the U.S. Department of Justice: LEAA and the juvenile justice program. Although statutory authority for the LEAA program is available through fiscal year 1983, grants under this program face termination resulting from budget reductions.

The LEAA program incurred major cuts in its budget for 1981 which virtually eliminated funding for block and discretionary grants. The Reagan administration will maintain these budget reductions in LEAA's budget for 1982 and 1983. Only the Federal research and statistical assistance functions administered by the National Institute of Justice and the Bureau of Justice Statistics will remain.

State and local governments and interest groups have argued for some continuation of grant assistance even at more modest levels. They feel that lacking Federal seed money, criminal justice innovation will not be possible. The Reagan administration has cited the need for reducing Federal spending in justification for continuing the phaseout of LEAA grants in fiscal year 1982 and fiscal year 1983. The Law

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[11] George F. Bishop, et al., "An Impact Evaluation of the National Elderly Victimization Prevention and Assistance Program," Behavioral Sciences Laboratory, University of Cincinnati, 1979.

Enforcement Assistance Administration will cease existence as of April 15, 1982. All of its remaining functions will be assumed within the Department of Justice.

3. IMPACT OF BUDGET CUTS ON ELDERLY CRIME PREVENTION AND VICTIM ASSISTANCE PROGRAMS

In testimony before the Special Committee on Aging, project directors of elderly crime prevention programs and victim assistance services verified the fact that LEAA funds were their major source of support. They testified that other agencies supplemented their funding.

The Department of Housing and Urban Development has funds available for crime prevention model projects for public housing programs. The Department of Health and Human Services through the Older Americans Act makes available under title III-B funds for social services (though previous to the 1981 amendments to the act there was no language referring to anticrime efforts). The Community Services Administration had funded model projects in the area of crime prevention.

However, LEAA funds and local sources of funding and law enforcement agencies made up the bulk of support for their programs.

After testimony from the project directors, it was apparent that a majority of anticrime and victim assistance programs have a uncertain future since the demise of LEAA funding. Programs will have to rely on already overextended local and State resources, and local private or community support, and reliance on the help of trained older volunteers.

C. FUTURE DIRECTIONS

Given the current atmosphere of budgetary austerity at all levels of government, it is highly unlikely that there will be any mounting of new programs using large amounts of Federal funds. Yet, it is possible that some progress can be made to prevent crimes against the elderly, and help those elderly who are victimized, if the right resources are mobilized.

The most important resources are the elderly themselves. As the Special Committee on Aging discovered, a relatively neglected source of potential growth for anticrime services is older citizens themselves. The capacity of trained, reliable, and productive older volunteers to expand the services of existing programs at low cost, while at the same time gaining a great deal in return for those who do the volunteering, is clear. Another important resource are the people who work with the elderly on a daily basis—nutrition workers, visiting nurses, senior center staff. All can be taught to recognize and deal with the problems of crime and fear of crime.

This community of service agencies could become an extra resource for continued reform—if it is effectively mobilized. To help mobilize both these groups the committee has in addition to sponsoring the hearings taken two steps:

1. SPECIAL COMMITTEE ON AGING PUBLICATION

In response to the need for better public awareness of effective crime prevention steps, the Special Committee on Aging prepared an information paper entitled: "Crime and the Elderly—What You Can Do." The publication highlights those crime problems which are the most serious threats to older Americans. It also gives practical and tested advice on what an older person can do to reduce the risks of becoming a victim, and suggests actions that older people can take to help prevent crime and to assist the police and crime victims. It was prepared in conjunction with the Office of Justice Assistance Research and Statistics of the U.S. Department of Justice, the Crime Prevention Coalition, the Criminal Justice Services of the American Association of Retired Persons, and the Criminal Justice and the Elderly Program of the National Council of Senior Citizens.

2. HEINZ AMENDMENT TO THE OLDER AMERICANS ACT

In order to encourage greater coordination among service providers and a greater pooling of scarce resources, Senator Heinz introduced an amendment to the Older Americans Act to provide for crime prevention services and victim assistance programs for older individuals under the social services title (title III–B). The amendment, which was accepted by the Senate, became part of the 1981 amendments to the Older Americans Act (Public Law 97–115).

The amendment will allow those who provide aging services to work cooperatively with law enforcement agencies, community organizations, and older volunteers in the development of crime prevention services and victim assistance programs to older citizens.

While no additional funding is provided to implement the amendment, it should make possible a more effective use of resources and greater coordination among those who have direct contact with older citizens under the Older Americans Act and other organizations in the community with the authority and expertise to combat crime and assist victims.

Chapter 23

CONSUMER FRAUDS AND DECEPTIONS

Defrauding the elderly can mean big profits to the unscrupulous. Not only is the over-65 market a lucrative source of consumer expenditures, worth well over $60 billion annually, but a number of age-related factors, such as reduced fixed income levels and chronic health conditions, contribute to making the elderly the easiest targets for economic abuse by charlatans, quacks, and quick-buck artists. Ironically, at the same time that older consumers as a cumulative market are growing in consumer power, as individuals many live close to the poverty line and have little in the way of disposable income. Consequently, crimes aimed at the elderly's pocketbooks far too frequently have severe consequences for the victims.

In response to these factors, as well as substantial evidence suggesting that economic frauds and deceptions against the elderly are widespread and increasing, the Senate Special Committee on Aging has initiated broadbased examination into these issues. As part of this inquiry, the committee held a field hearing in Harrisburg, Pa., on August 4, 1981, and is conducting a national survey concerning frauds against the elderly. The results of this survey and review will be published early in 1982. In addition, several members of the Senate Special Committee on Aging introduced legislation, S. 1407, to strengthen the U.S. Postal Service's ability to combat frauds perpetrated through the mail. The following is an overview of the major issues surrounding economic frauds and deceptions against the elderly and a summary of the Senate Committee's activities in this area.

A. OVERVIEW

1. The Typical Elderly Victim

The typical elderly consumer, the widowed female resident of the inner-city, is also the most likely victim of economic fraud or deception.

Typically, the victim owns her own home, has had her income cut in half due to the death of her husband, and has limited mobility. Elderly men and seniors living in rural areas are, however, also the targets of these frauds.

2. The Con Artist

Numerous studies have shown that the perpetrators of economic deceptions and frauds against the elderly are skilled observers of human nature who are adept at spotting and courting likely victims. Con artists never look like con artists. They usually appear as friendly, trustworthy, and helpful individuals who are actually taking advantage of a generation that grew up in more trusting times.

They usually prey on a need and desire for increased income or the charity of the victims. They find their subjects in numerous and ingenious ways—by reading the obituary columns to identify recent widows, by driving through neighborhoods to find older homes obviously in need of repair, or by advertising quack medical devices or phoney work-at-home schemes in magazines, newspapers, and via the mail.

3. No Group Is Exempt

While certain elderly people have specific characteristics that make them particularly at risk of being defrauded, those who seek to defraud the elderly are not discriminatory. The poor elderly are defrauded of their nickels and dimes, while those with formal education and sufficient income only lend themselves to more sophisticated frauds for bigger takes. In a study done for the Battelle Law and Justice Study Center it was found that the level of education attained by an older person increases the amount of money and intimidation involved in a reported abuse, but no elderly socioeconomic subgroup was more victimized than another.[1]

4. Impact of Fraud on the Elderly Victim

There is no reliable data presently available which describes the scope of the financial, physical, or emotional impact of frauds against the elderly.

However, testimony before both the House and Senate Aging Committees has provided a comprehensive picture of the range of such consequences, ranging from small, but embarrassing, financial losses, to actual loss of life. Investigators have identified organized groups of con artists, such as the Williamson Gang, who travel around the country performing relatively small-time scams that frequently cause more shame and frustration to the elderly victim than significant financial loss. On the other hand, other victims suffer severely. Cases have included suicides as a result of loosing a life's hard-earned savings and deaths caused by a victim's abandoning traditional medical treatment for "miracle cures."

The committee is now conducting a national survey of consumer problems and economic frauds against the elderly. The study will identify the prevalence and impact of the various types of frauds against the elderly.

B. FACTORS CONTRIBUTING TO THE VULNERABILITY OF THE ELDERLY

1. Health Concerns

The elderly are frequently concerned about their health and they can be opportune targets for medical quackery. The 1975 National Council on Aging/Lou Harris nationwide attitudinal survey identified fear of poor health and declining physical condition to be the most widely held fears associated with growing old. Additionally, numerous studies have shown that arthritis is the most frequent cause of limited mobility among the elderly. The Arthritis Foundation estimates that $950 million is spent on phoney or unproven arthritis cures annually.[2] Other concerns such as cancer and the aging process itself can motivate the elderly to seek out so-called "miraculous" health cures.

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[1] Battelle Law and Justice Study Center, final report, "Consumerism and the Aging: The Elderly As Victims of Fraud," November 1978, page 19.

2. LIMITED INCOMES

The vast majority of elderly live on fixed incomes and a substantial number are poor or near-poor. These factors coupled with their real and heightened need to offset the ravages of inflation make the elderly particularly susceptible to fraud by bogus investment and business opportunity schemes. More than 92 percent of elderly unrelated individuals receive social security (1980); 15.7 percent of individuals over the age of 65 have incomes below the poverty line, while 25.7 percent have incomes below 125 percent of the poverty line (190).

3. HOMEOWNERSHIP

While many elderly live near the poverty line, the majority of older people own their own homes and over half of those homes were built prior to 1940. These older homes require substantial care. Accordingly, the elderly are particularly susceptible to one of the most common and lucrative economic frauds—phoney home repair.[3]

4. NEW ROLES

A large segment of the elderly population are widows who, although proficient in some consumer areas, traditionally relied on the husband to make economic decisions. Consequently, they are not as skilled in those consumer areas that are also the most susceptible to fraud such as home repair and investment. About 52 percent of women over the age of 65 are widowed.

5. LOWERED AWARENESS

As a group, the elderly tend to make things easier for perpetrators of economic deceptions and frauds. A 2-year University of Pittsburgh study found that the elderly not only complain less than other groups, but also have lower levels of awareness of unfair business practices.[4]

6. LIMITED MOBILITY

A substantial number of the over-65 population have limited mobility due to health impairments and lack of transportation making them particularly liable to fraudulent practices that appear to provide easy accessibility, such as work-at-home and door-to-door schemes.

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[2] Heckt, Annabel, "Hocus-Pocus as Applied to Arthritis", FDA Consumer, September 1980, page 24.

[3] Nelson, Thomas C., "Consumer Problems of the Elderly," FTC, August 1978, p. 26.

[4] Perloff, Robert, and McCaskey, Patrick H., "Nonmonetary Costs Associated With Consumer Fraud and Dissatisfaction of the Elderly," presented at the 1978 American Council on Consumer Interests Conference, Chicago, 1978.

7. ISOLATION

Many older people live by themselves, increasing their loneliness and, consequently, their vulnerability to con artists who appear friendly and offer their company as a method to gain access to the elderly to get their foot in the door. About 28 percent of noninstitutionalized persons between the ages of 65 and 74 and about 41 percent of those over 75 live outside a family setting (1979).

8. SENSORY IMPAIRMENT

Two physical conditions—vision and hearing impairment—can reduce the elderly consumer's ability to receive consumer information and perform economic transactions with confidence. Vision and hearing are the major means for attaining information about goods and services, for comparison shopping and for knowledge about consumer rights. At the same time, vision and hearing impairments are commonplace among the elderly. Only 15 percent of the very old, individuals over 75 years old, have 20/20 vision even with correction, and 75 percent have some type of hearing impairment.[5]

9. LIMITED EDUCATION

One out of eight elderly have reading skills poor or inadequate enough to be considered functionally illiterate, creating a disadvantage in attaining consumer information and performing transactions. Minority elderly suffer even higher rates of illiteracy. The rate among the black elderly may be as high as 33 percent.[6]

C. TYPES OF FRAUD

Fraud and economic deception includes such diverse transactions such as "miracle cures" for health problems, insurance sales, and land investment. Leading economic deceptions against the elderly are health frauds, bunco schemes (confidence games), and home-repair schemes.

Medical frauds have the dubious distinction of potentially bearing the greatest harm for they can have drastic physical consequences as well as negative financial and emotional outcomes. A mid-1970's estimate by the Consumers Union that at that time Americans spent $2 billion a year on medical frauds, suggests the tremendous market in medical quackery. Medical frauds include a diverse range of products such as: Enzymes and herbs purported to be "miracle cures," self-diagnosis instruments such as faulty blood-pressure cuffs or eyeglasses sold at less than full strength so that the victim will have to return frequently. Perhaps the most heartbreaking examples are the bogus cures for terminal or irreversible diseases such as cancer or emphysema.

Bunco schemes—or confidence games—defraud through trickery. The Brunco artist uses deception to gain the confidence of the victim. For instance, in Euclid, Ohio, an elderly widow was bilked out of about $100,000 in jewelry by con artists posing as authorities investigating a check fraud case. It is estimated that there are 800 ingenious bunco schemes such as this one currently being practiced by con artists.

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[5] Nelson, Thomas C., "Consumer Problems of the Elderly," FTC, August 1978, page 26.
[6] Ibid., page 22.

The pigeon drop is one of the most common bunco schemes. The California Department of Justice estimates that in that State alone a half a million dollars a year is lost on this scheme. There are many twists to this con, which to the sophisticated seems too incredible to work. In the most common variation an older person is approached by "strangers" who claim to have found a large bag with cash in it and through a series of deceptions convince the victim to withdraw cash from his bank to put up as "good faith" money toward splitting the "found" money. The victim is usually convinced to put the withdrawn cash in a purse or parcel and in a final deception the cash is switched with cut-up newspapers.

Home-repair and improvement frauds include the selling of unneeded work, work contracted for and not provided, and poor workmanship or materials. Using a common bunco technique, home-repair and improvement swindlers may pose as city inspectors, utility representatives, employees of well-established home-improvement contractors, or claim that a neighbor referred them. They usually arrive one day at the homeowner's door without having been requested. In one common approach a "representative" from a contracting company "just happens to be in the neighborhood" and after making a "free no obligation" inspection convinces an older homeowner who cannot climb up to his roof that his chimney is about to cave in. For an unreasonable sum of money, sometimes requested as "half now for materials" and the rest later, the representative pretends to go purchase materials and absconds with the victim's money.

Experts suggest that other common areas of fraud against the elderly include, but are not limited to, the sale of insurance; the sale and repair of automobiles and appliances; business opportunity and investment schemes; a variety of mail order sales; and dealings with nursing and boarding homes.

D. HEARING IDENTIFIES MAJOR FRAUD AREAS AFFECTING THE ELDERLY

To learn more about the range of frauds perpetrated against the elderly, the severity of their impact, and ways of solving problems, Senator Heinz, chairman of the Senate Special Committee on Aging, held a hearing on August 4, 1981, in Harrisburg, Pa., on "Frauds Against the Elderly." Witnesses testified to a staggering array of frauds, deceits, and callous exploitation worked against the elderly. The witnesses included noted national authorities, a convict who made a career out of defrauding the elderly, and Pennsylvania officials who testified on problems relating to frauds against the elderly on a State level.

The hearing included demonstrations of fraudulent techniques and devices commonly used against the elderly. Virginia Knauer, Special Assistant to the President, and Director of the U.S. Office of Consumer Affairs, displayed fraudulent medical devices such an electrogalvanic bracelet and an acupressure massage mat. Kenneth Fletcher, Chief Postal Inspector, U.S. Postal Service, dramatized the danger of mail order "miracle cures'" by citing an example of a "cancer cure" which consisted of contaminated kelp compound that the individual was to inject into himself. The product was seized by postal officials and upon analysis was determined to be so full of toxic substances that use of it described in the accompanying advertising material could have caused death. Chief Fletcher also described a $500,000 real estate scam that drove a retired farmer to suicide. Convicted felon and former counterfeit coin dealer, Hap Seiders, gave examples of common swindling techniques, such as changing his corporation's name to avoid detection by authorities and of several financial investment scams.

Ms. Knauer and Mr. Fletcher both testified to the efforts currently taking place on a Federal level to combat fraud against the elderly. Ms. Knauer stated that the administration is working to reduce these crimes through a program of increased public awareness including consumer education through the media and of public displays of fraudulent products.

Mr. Fletcher described mail fraud as a high priority for the U.S. Postal Service and praised bill S. 1407 (see below) as a vehicle for strengthening the Postal Service's ability to investigate and restrain fraudulent schemes.

Pennsylvania officials related the range and depth of problems related to economic frauds against the elderly on a State level.

Terry Lazin, director of the Pennsylvania Bureau of Consumer Protection, testified that her office receives about 5,000 complaints yearly from the elderly concerning economic crime. Ms. Lazin estimated that this figure represents only 5 percent of the total frauds that are actually perpetrated against the elderly.

Other witnesses included the Attorney General of Pennsylvania, the director of the Pennsylvania Bureau of Consumer Protection, the U.S. Attorney from the middle district of Pennsylvania, the Secretary of the Pennsylvania Department of Aging, and the head of the economic crime unit of Philadelphia's District Attorney's office. They described Pennsylvania's efforts to deal with the problem of frauds against the elderly by educating older consumers through an interagency task force established by the Governor.

E. SURVEY ON CONSUMER PROBLEMS OF AND ECONOMIC FRAUDS AGAINST THE ELDERLY

As an outgrowth of the Pennsylvania hearing, Chairman Heinz directed the committee staff to conduct a national survey of these issues. The committee poled over 1,400 chiefs of police, district attorneys, and State consumer office during the fall and winter of 1981. The purpose of the survey is to identify the national impact of the problem, and what can be done to combat frauds against the elderly on national and regional levels. The results will be released early in 1982.

F. BILL INTRODUCED TO STRENGTHEN THE ABILITY OF THE POSTAL SERVICE TO DEAL WITH MAIL FRAUD

In an effort to strengthen the hand of postal authorities to combat mail fraud, Senator Pryor introduced and Senators Heinz and Chiles, chairman and ranking minority member of the Committee on

Aging, were original cosponsors of S. 1407, a bill to amend title 39 of the U.S. Code, to strengthen the enforcement powers of the U.S. Postal Service to deal with schemes perpetrated through the mails. The bill would give the Chief Postal Inspector the same subpoena powers given to the Inspectors General in most other Government agencies. S. 1407 was favorably reported from the Subcommittee on Civil Service, Post Offices, and General Services of the Senate Committee on Governmental Affairs. Action is expected by the full committee during 1982.

Testimony by Postal Inspection personnel suggests that mail frauds, estimated to involve billions of dollars per year are on the increase. Postal authorities estimate that 60 percent of these frauds are perpetrated upon older Americans. Due to low incomes, limited mobility, and poor health, many elderly rely on mail-order sales for conducting their business. All of these factors demonstrate the need for this legislation.

While the Postal Inspection Service has accumulated an impressive track record in putting an end to innumerable mail-fraud schemes, several obstacles impede its efforts to obtain an even greater number of successful prosecutions and to permanently ban those convicted of wrongdoing from reestablishing their fraudulent operations by simply changing their names or operations. This bill would establish these impediments.

In order for the Postal Inspection Service to evaluate whether a product measures up to its advertised claims, the Service must send for it through the mail in much the same way that an ordinary citizen does. It can take up to 3 months to receive a product, which must then be evaluated. The Service must then approach an administrative law judge or a U.S. attorney for action. The critical factor is the delay caused by this process.

Defrauders of the elderly know the nature of this procedure. As a result, they commonly place an ad, take orders for several months, and fill all the orders at one time as they close down their business operation, oftentimes reopening under another name. By the time the inspectors receive their product the perpetrators and their assets have vanished.

S. 1407 provides a solution to the problem. In addition, it gives the Postal Service the authority to appear at the address mentioned in a suspicious ad, present a postal money order for the amount of the purchase, and receive immediate access to the product.

A third item in the bill would give the Chief Postal Inspector the authority to obtain an order barring named individuals from further engaging in the scheme which was the subject of a prior action. Violations of this order could be punished with civil penalties up to $10,000 for each violation.

S. 1407 does not add significant new costs to the Treasury. It will, if passed, go a long way toward providing the Postal Inspection Service with the necessary tools to move promptly and efficiently against those who victimize our Nation's elderly.

Part VII

CONFERENCES

The third White House Conference on Aging took place in November 1981, amid renewed public interest in the situation of older Americans and in the appropriate level of public responsibility for meeting the needs of the aged. Well over 4,000 delegates and observers met for an intense week of discussion, debate, and voting. The hectic pace of the Conference deliberations often masked the extensive and thoughtful work done earlier in the year to prepare for the Conference, as reflected in the technical reports, miniconferences, and State reports. These documents, along with the over 600 recommendations approved by the delegates, constitute a valuable resource for all those interested in the implications of aging for every facet of our society.

At the same time that Congress attempts to absorb and evaluate the work of the White House Conference, preparations are well under way to prepare for a similar international conference. The 1982 World Assembly on Aging, sponsored by the United Nations, will bring together representatives of the governments of both developed and developing nations in Vienna, Austria, to exchange information and to begin more direct collaboration in dealing with the challenges posed by the worldwide "graying" of the human race.

Although many important conferences on aspects of aging and public policy occur every year, these two major events, sponsored by the U.S. Government, provide a unique opportunity to assess the national and international "state of the art" in public policies and programs concerning the aged and aging.

Chapter 24

1981 WHITE HOUSE CONFERENCE ON AGING

OVERVIEW

On November 30, 1981, over 4,000 delegates and observers to the third White House Conference on Aging began 4 days of deliberation and debate on major issues that affect the elderly. The over 600 recommendations made during the Conference will influence both legislative and administrative activities for the decade of the eighties. Because it is not yet possible to evaluate the substantive achievements of the Conference, this chapter will summarize the events leading up to the Conference and the schedule of post-Conference activities.

The 1981 White House Conference on Aging provided the opportunity to confront both short-term and long-range issues of concern to an aging society and to develop recommendations and directions for responsive public action. A number of factors were cited as being significant in convening the 1981 Conference. They included:

—The increase in the total number of older people in America and the growing proportion they represent in the population as a whole.

—The phenomenon of longer life and the projected continual increase in the size of the older population.

—The increased pool of knowledge available about why and how people age.

—The growth in private and public services for older Americans.

—The increased awareness on the part of public policymakers that the older population is, while beset with a multitude of problems, also an important national resource.

When Congress authorized the 1981 White House Conference on Aging in 1978 (Public Law 95–478), it recognized that the dramatic demographic and societal changes made it essential that a renewed national policy on aging be developed. Congress also noted that emphasis be placed on the "right and obligation of older individuals to free choice and self-help in planning their own futures." The culmination of the 1981 White House Conference on Aging marked the beginning of a process designed to articulate a comprehensive and coherent national policy on aging for the coming decade.

A. LEGISLATIVE BACKGROUND

On October 18, 1978, President Carter signed legislation (Public Law 95–478) which authorized the 1981 White House Conference on Aging. The 1981 Conference was held on November 30, 1981 to December 3, 1981, in Washington, D.C. This was the fourth time a national forum of aging had been held in Washington since 1950. Although the first one was not officially designated as a White House Conference, the Conference in 1961 and 1971 were.

The legislation which authorized the Conference noted nine policy areas for consideration. They included:

(1) Improvement of the economic well-being of older individuals.

(2) Increase in availability of comprehensive and quality health care for older individuals.

(3) Expansion of availability of appropriate housing with supportive services to promote increased independence for older individuals.

(4) Increase in the comprehensiveness and effectiveness of the social service delivery system for older individuals.

(5) Promotion of greater employment opportunities for middle-aged and older individuals.

(6) A more comprehensive and responsive long-term care policy.

(7) A national retirement policy that contributes to fulfillment, dignity, and satisfaction of retirement;

(8) Policies to overcome false stereotypes about aging and the process of aging.

(9) A national policy with respect to biomedical and other appropriate research.

In addition, the legislation for the Conference assigned major responsibility to the Secretary of Health and Human Services for both the planning and implementation of the Conference. The Secretary was to be assisted by the Commissioner on Aging and the Director of the National Institute on Aging in carrying out these duties.

The legislation also set forth a number of pre- and post-conference requirements which included:

—Providing financial assistance to State and area agencies on aging, and other appropriate organizations to enable them to organize and conduct pre-White House Conferences on Aging.

—Preparing and disseminating background materials to the delegates to the Conference.

—Appointing an advisory committee to the Conference; and

—Issuing a final report to the President and the Congress within 180 days following Conference adjournment on the findings and the recommendations of the Conference, and within 90 days after the release of this report, submission of recommendations for legislative and administrative actions.

Congress appropriated $6 million to conduct the 1981 Conference. In addition to paying for arrangements for the Conference itself and for the expenses of the delegates who attended, the funds have been used to pay operating expenses and a staff which began initial planning in mid-1979 and will conclude its work on the final Conference report by late 1982.

B. CONFERENCE LEADERSHIP

Although the 1981 White House Conference on Aging was authorized in October 1978, initial planning for the Conference did not officially begin until June 1979. With the change in administration in January 1981, Secretary of Health and Human Services Richard Schweiker assumed the overall responsibility for the Conference.

In March 1981, Secretary Schweiker named David Rust as the new executive director for the Conference. Mr. Rust had previously served 4 years on the staff of the Senate Special Committee on Aging, the last 2 of those years as minority staff director.

In May 1981, 58 newly appointed advisory committee members were sworn in by the Secretary of HHS and began their work of helping Director Rust and his staff prepare for the Conference. Constance Armitage of Inman, S.C., was named chairperson of the committee and the Conference. Ms. Armitage is an associate professor of art history at Wofford College, Spartanburg, S.C. Six deputy chairpersons were also named for the Conference: J. Glenn Beall, former U.S. Representative and Senator from Maryland (6 years as ranking minority member on the Senate Subcommittee on Aging and 4 years as a member of the Special Committee on Aging), Frostburg, Md.; Anna Brown, the executive director of the Mayor's Commission on Aging, Cleveland, Ohio; Dr. Arthur Flemming, former Secretary of Health, Education, and Welfare, and Commissioner on Aging and the chairman of the 1971 White House Conference on Aging, Alexandria, Va.; Consuelo Garcia, chairman of the Mexican-American Cultural Society of Houston, Tex.; William Kieschnick, president and chief executive officer of Atlantic Richfield Co., Los Angeles, Calif.; and Eleanor Storrs, a board member of the National Alliance of Senior Citizens, Coronado, Calif.

In addition to the 58-member advisory committee, four congressional leaders were named by Secretary Schweiker to serve as honorary chairmen for the White House Conference on Aging: Senator John Heinz (R–Pa.), chairman of the Senate Special Committee on Aging; Senator Lawton Chiles (D–Fla.), ranking minority member of the committee; Representative Claude Pepper (D–Fla.), chairman of the House Select Committee on Aging; and Representative Matthew Rinaldo (R–N.J.), ranking minority member of the committee.

In October 1981, Secretary Schweiker announced a change in the Conference director's position. Betty Brake was appointed new executive director for the balance of the Conference. Ms. Brake was former director of older Americans volunteer programs at the ACTION agency.

C. PRECONFERENCE ACTIVITIES

Pre-White House Conference activities began in the spring of 1980, and were designed to insure grassroots involvement of older persons, minorities, low-income persons, aging organizations, and other interested individuals. Preconference activities included:

—Over 9,000 community forums held in towns and cities across the Nation to begin discussions of aging issues at the grassroots level.

—Fifty-eight statewide conferences in States and territories, and in the Navajo Nation, to assimilate the views of citizens from each area of the country.

—Forty-two "mini" conferences which examined special aging issues—issues that affected particular populations or issues that could not be treated in depth through the general 1981 White House Conference process; and

- —Sixteen technical committees which gathered data and made recommendations on a wide range of issues.

Reports from these activities were made available to the delegates and observers who took part in the national Conference.

D. MINICONFERENCES

Beginning in September 1980, a series of miniconferences were held to examine issues such as consumer concerns, mental health, long-term care, housing, minority aging, and energy. Miniconferences were recognized by the White House Conference on Aging and were convened by a host of organizations that wished to focus national attention of special aging issues.

The 42 miniconferences on aging were conducted in the following subject areas:

- —Recreation, leisure, and physical fitness.
- —Aging and alcoholism.
- —Energy equity and the elderly.
- —Public/voluntary collaboration: A partnership in contributing to independent living for the aging.
- —National health security.
- —Concerns of low-income elderly.
- —Vision and aging.
- —Alzheimer's disease.
- —Arts, the humanities, and the older Americans.
- —Older women.
- —Lifelong learning for self-sufficiency.
- —The urban elderly.
- —Rural aging.
- —Long-term care.
- —Non/services approaches to problems of the aged.
- —Spiritual and ethical value system concerns.
- —Transportation for the aging.
- —American Indian/Alaskan Native elderly.
- —Pacific/Asian elderly, "Pacific/Asians: The Wisdom of Age."
- —Environment and older Americans.
- —Rights of the institutionalized elderly and the role of the volunteer.
- —Veterans.
- —Mental health of older Americans.
- —Saving for retirement.
- —Hispanic aging.
- —Challenging age stereotypes in the media.
- —Oral health care needs of the elderly.
- —Housing for the elderly.
- —Consumer problems of older Americans.
- —Senior centers.
- —Elderly hearing impaired people.
- —Black aged.
- —Legal services for the elderly.
- —Simplifying administrative procedures and regulations in programs affecting the elderly.
- —Intergenerational cooperation and exchange.

- —Self-help and senior advocacy.
- —Euro-American elderly.
- —Inter-relationship of government, private foundations, corporate grant-makers and unions.
- —"The National Dialogue for the Business Sector."
- —Foot health and aging.
- —Pacific Islanders jurisdiction.
- —Gerontological nursing.

E. TECHNICAL COMMITTEES

Experts from various fields were appointed by the Secretary of Health and Human Services to serve on 16 technical committees. Each committee was charged with developing issues and recommendations in a particular area for consideration as background material for the delegates to the 1981 White House Conference on Aging.

The following technical committee reports have been published by the Conference: Retirement income; health maintenance and health promotion; health services; social and health aspects of long-term care; family, social services and other support systems; the physical and social environment and quality of life; older Americans as a growing national resource; employment; and research in aging.

Also, seven other topics were addressed which dealt with creating an age integrated society: Implications for societal institutions, implications for the economy, implications for the educational systems, implications for spiritual well-being, implications for the family, implications for the media, and implications for governmental structures.

F. CONFERENCE PARTICIPANTS

Approximately 2,260 voting delegates and close to 2,000 official observers attended the 1981 White House Conference on Aging. The travel and lodging expenses of all the delegates were paid for by the Conference. The official observers were given credentials and assigned to committees but were not reimbursed for any expenses.

The selection of Conference delegates was divided among a number of the following groups and organizations:

- —1,000 delegates appointed by the Governors were divided among the 57 States and territories according to the proportion of the age 55 and older population of each of these jurisdictions. No State received less than six delegates, and it was expected that the delegates would be representative of the demographic makeup of each State.
- —Members of Congress appointed 540 delegates.
- —Approximately 152 delegates were granted status because they were members of 1 of the 16 Conference technical committees or were State conference coordinators appointed by the Governors.
- —Approximately 174 delegates were appointed by a variety of aging, business, educational, and other organizations.
- —The balance of the delegates (approximately 400) were appointed by the administration, the White House Conference, the Secretary of Health and Human Services, the Conference advisory committee members, and the National Institute on Aging advisory committee.

G. THE 1981 CONFERENCE

The 1981 White House Conference on Aging opened at 6:30 p.m., November 29, 1981, at the Sheraton Washington Hotel, Washington, D.C. Welcoming remarks were delivered by Betty Brake, the executive director of the Conference, and Constance Armitage, the Conference chairperson.

Two plenary sessions and a series of Conference luncheons, receptions, and banquets were scheduled, with the remaining 4 days of the Conference devoted to committee sessions.

The opening plenary session was devoted to welcoming the official delegates and observers to the Conference. Participants heard remarks from Senator John Heinz, chairman of the Senate Special Committee on Aging and from Representative Claude Pepper, chairman of the House Select Committee on Aging. The keynote address was delivered by Secretary Richard Schweiker from the Department of Health and Human Services.

Because of the size of the Conference, delegates and observers were lodged at either the Sheraton Washington Hotel or the Washing Hilton Hotel. The assigned hotel corresponded to 1 of the 14 issue committees which the delegates were to serve on.

At the luncheon sessions on Monday, November 30, delegates at the Sheraton Hotel heard from Senator Lawton Chiles, ranking minority member of the Senate Special Committee on Aging. Those who attended the luncheon at the Hilton Hotel heard remarks from Representative Matthew Rinaldo, the ranking minority member of the House Select Committee on Aging.

President Reagan addressed the delegates and observers at the Sheraton Hotel on Tuesday, December 1. Other distinguished speakers at the Conference included: Vice-President George Bush, AoA Commissioner Lennie-Marie Tolliver, Dr. Arthur Flemming, and Office of Human Development Services Assistant Secretary Dorcas Hardy.

With the exception of the opening and closing sessions as well as the Conference special events, the delegates spent the remaining time in committee sessions.

The 1981 White House Conference was organized around 14 issue area committees. Delegates and observers were assigned to one of these committees, and the majority of their time at the Conference was spent developing and discussing recommendations for the committees.

The title and brief description of each of the issue area committees were as follows:

(1) "Implications for the Economy of an Aging Population": This committee dealt with such matters as the effects of inflation on older Americans, means for supporting a potentially larger dependent population and the impact of age discrimination on employment opportunities and productivity.

(2) "Economic Well-Being": Discussion focused on social security, other public retirement programs, private pensions, possible tax incentives to encourage saving for retirement, and public assistance.

(3) "Older Americans as a Continuing Resource": This committee reviewed various avenues of employment for older Americans, including full- and part-time, self-employment, volunteer and com-

munity service work, training for continuing or future careers, and possible tax and other incentives for all of these activities.

(4) "Promotion and Maintenance of Wellness": Health education, physical fitness, nutrition, and disease prevention techniques were primary issues addressed by this committee.

(5) "Health Care and Services": This committee discussed the quality and delivery of health care, various methods of financing health services and special aspects of health services for older Americans.

(6) "Options for Long-Term Care": This committee dealt with the planning and coordination of quality health and social services for those who need long-term care either at home or in an institutional setting, with special attention paid to means of facilitating self-help and freedom of choice.

(7) "Family and Community Support Systems": This committee discussed how family members, friends, and neighbors are able to deal with the needs of older Americans and consider ways to make it easier to meet responsibilities.

(8) "Housing Alternatives": This committee reviewed affordable options in housing for older Americans and alternatives for independent living. Crime prevention was also addressed.

(9) "Conditions for Continuing Community Participation": This committee discussed the availability, accessibility, and importance of civic, recreational, cultural, and other activities to older Americans. Transportation was also a major focus.

(10) "Educational and Training Opportunities": This committee discussed planning and counseling activities in preretirement years, lifelong learning, self-help and advocacy, and other educational activities.

(11) "Concerns of Older Women: Growing Numbers, Special Needs": This committee examined income, employment, health, and the quality of life of older women, who comprise a large segment of the overall population.

(12) "Private Sector Roles, Structures and Opportunities": This committee focused on policies of business, labor, charitable, and other voluntary organizations toward the Nation's elderly citizens.

(13) "Public Sector Roles and Structures": This committee addressed roles and strategies for all levels of government in providing services to elderly citizens.

(14) "Research": This committee discussed the need for knowledge about aging, the impact of aging research on current policies, and means, both public and private, of supporting research.

On Thursday, December 3, the closing plenary session of the Conference was held. Constance Armitage presided, and a summary report of the recommendations from the 14 committees was presented to the entire delegation. By voice vote of the delegates and observers, the recommendations of the 1981 White House Conference on Aging were adopted en bloc.

H. MAJOR RECOMMENDATIONS OF THE CONFERENCE

1. INCOME

The financial integrity of social security cash benefits should be assured but only through the use of payroll taxes, not general revenues.

Interfund borrowing should be permitted.

Benefits to current beneficiaries should not be reduced.

The minimum benefit should be restored to current and future beneficiaries.

No change should be made in the early retirement option.

The earnings limitation should be eliminated for those 65 and over.

Mandatory retirement should be eliminated.

Enforcement of the provisions of the Age Discrimination in Employment Act should be increased.

Supplemental security income (SSI) benefits should be raised to the poverty level, and the asset test should be eliminated.

2. HEALTH CARE

Medicare coverage should be expanded to include prescription drugs, eyeglasses, hearing aids, dental care, preventive and maintenance care, adult day care, hospice, ambulatory services, and more coverage should be provided for mental health services and home health care.

In-home care should be promoted as an alternative to institutional care, including expansion of benefits for long term care.

Tax incentives should be provided for families to maintain elderly relatives in their homes.

Medicare and medicaid should make prospective payments to institutions and practitioners.

Medicare and medicaid should place greater emphases on competition between third-party payers and health care providers.

3. HOUSING

The public and private sectors should work together to develop a comprehensive approach for providing and rehabilitating housing for the elderly.

At least 20,000 units of housing should be provided to the elderly *per year* through section 8, section 202, and public housing programs.

4. EMPLOYMENT

All restrictions to the employment of older workers should be eliminated, including mandatory retirement, age, sex or race discrimination, and the lack of sufficient or adequate incentives.

Employers should be encouraged to hire older workers on a part-time, temporary, or shared basis, working on flexible schedules if they are able and willing to work.

Federal, State, and local government should set an example by hiring the elderly and minorities.

5. Older Women

The Federal Government should provide leadership in the ratification of the equal rights amendment.

Portability and vesting of pensions should ensure women's rights to spouse's pensions and benefits.

I. FOLLOWUP ACTIVITIES

The delegates to the 1981 White House Conference worked with a great deal of enthusiasm and dedication. The recommendations developed covered almost the entire range of concerns of older Americans.

Under the enabling legislation, the Secretary of the Department of Health and Human Services is required to submit a report to the Congress on the findings and recommendations of the 1981 Conference within 6 months following the Conference adjournment. Within 3 months following that date, the Secretary must transmit to the President and Congress his recommendations for both administrative and legislative actions.

Under the official rules of procedure for the 1981 Conference, the executive director of the Conference was to provide the opportunity to each delegate and observer to register the delegate's or observer's personal judgment with respect to every recommendation included in all committee reports, supplemental statements, and additional views. In late December 1981, Conference participants were sent a packet of information containing over 600 recommendations, supplemental statements, and additional views from the Conference along with evaluation forms to rate the Conference, each committee and the various recommendations. The participants were asked to provide comments which they felt were relevant and/or important, and were informed that their comments would be considered carefully in the writing of the final Conference report.

On December 4, the Senate approved an amendment as a followup to the 1981 Conference. That amendment stated:

> It is the sense of the Senate that Congress should commend the more than 3,500 delegates and observers to the 1981 White House Conference on Aging, as well as the President and the Secretary of Health and Human Services, for the important contribution they have made to establish goals and priorities for improving the well-being of older Americans.
>
> It is further the sense of the Senate that the appropriate committees of Congress, including the Special Committee on Aging, should give early and careful consideration to the more than 600 recommendations of the Conference.

As a result of this measure, and in order to gain an accurate understanding of the relative importance of the recommendations which were developed at the Conference, the Senate Special Committee on

Aging in cooperation with the National Retired Teachers Association/American Association of Retired Persons commissioned a survey of the delegates. The major purpose of this survey was to establish the delegates' priorities among the numerous recommendations. The results of this survey are expected to be available to Congress and the general public in March 1982.

It is still too early to evaluate the impact of the 1981 Conference in terms of the implementation of the recommendations or future legislative initiatives. The urgency for action was clearly established during the presentation of the summary reports at the final plenary session of the Conference. The real accomplishments of the Conference can only be assessed when older Americans see the concrete results which improve their well-being.

Chapter 25

WORLD ASSEMBLY ON AGING

OVERVIEW

The aging of the population is not limited to the United States, but is a worldwide phenomenon. In recognition of the importance of this phenomenon to all nations, a World Assembly on Aging will be held under the auspices of the United Nations in Vienna, Austria, July 26 through August 6, 1982.

Although the aged have always been an important segment of any country's population, until recently they represented a relatively small proportion of a country's total population and were not the primary focus of social and economic resources. Historically, the attention of educators, scientists, and government officials in most countries has been directed toward early childhood and youth since the highest increase in population was in that age group. But this is no longer true.

As a result of the developmental process, many regions of the world are witnessing an aging of their population. Economic growth and social modernization influence fertility, mortality, and some types of migration and result in the continuing increase in the numbers and percentages of older persons. This aging of the population can have an impact on social and economic development and has implications with regard to production, consumption and savings, employment, investment, migration, and rural development.

In 1970, there were 307 million people 60 years of age or older in the world. By 2000, that number is expected to rise to 580 million, an increase of nearly 90 percent.[1] That increase will be proportionately greater than the total population increase in all regions of the world.

There is a substantial difference in the rate of aging in developed and developing countries. The majority of industrialized nations have already reached a high percentage of elderly in their populations, while the impact of the increase in the older population has not yet been dramatic in the developing countries. Accordingly, little attention has been focused heretofore in developing countries on the need to address aging issues. This factor, combined with limited resources available to these countries, makes it particularly important that planning take place now for the future.

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[1] Data in this chapter are based on documents prepared by the Congressional Research Service, Library of Congress, the United Nations, and the Technical Meetings on Aging.

In developing countries, the total population is projected to increase by 88 percent by the year 2000. During the same period, the aged population in these countries is expected to increase by 123 percent.

A 21-percent increase in the total population of the developing countries is projected between 1970 and 2000, while the proportion of the aged is anticipated to increase by 54 percent.

Slightly over half of the world's population age 60 or over lived in the developing nations in 1970. By the year 2000, two-thirds of the aged will live in these countries.

Tables 1, 2, and 3 and chart No. 1 provide comparative figures, by regions of the world, of the numbers of people age 60 and over, and the percentage of population 60 years and over for the years 1950 through 2025.

Population aging has serious implications with regard to social and economic development. In many of the regions, societies which have been characterized by rural-agricultural traditional social systems and economies are being transformed into less traditional socities and economic systems characterized by a threat toward urbanization, agrobusiness, industrialization and an increasing tertiary services sector. Other regions, which have been characterized by highly industrialized economies, are now faced with the challenges of a more vigorous aging population who bring greater expectations, increased capacities, skills and personal resources to the societies of which they are a part, and large populations of frail and vulnerable populations who require increased resource allocations and new forms of service organization and delivery systems.

The effects of the developmental process in the major regions of the world are numerous and varied and include the following: The disruption of family patterns and the corresponding transfer of responsibility for the elderly to the government; varying patterns of demographic transition resulting in the rise of urban centers and the accompanying environmental hazards such as pollution and crime; rural development which brings a corresponding need for education regarding new technologies; and longer life spans resulting in chronic illness and disabilities requiring sophisticated, expensive health and social service delivery systems.

The purpose of the World Assembly on Aging is to further develop world awareness of these issues and to begin international discussion of policies designed to assure social and economic security to the elderly and to promote opportunities for older persons to remain contributing active members of their societies. This Assembly will bring together a wide range of official and nonofficial individuals interested in the concerns of the aging, including those from government and nongovernment agencies and organizations, and specialized agencies, as well as educators, scientists, health and social science professionals, urban planners and others.

Participants in the World Assembly will focus on identifying needs and resources, exchanging ideas, sharing common problems and goals, developing long-range policies and formulating recommendations for action by individual agencies within the U.N. involved in matters relating to the aged and aging.

TABLE 1.—NUMBER AND PERCENTAGE OF POPULATION AGED 60 YEARS AND OVER OF WORLD'S TOTAL, MORE DEVELOPED AND LESS DEVELOPED REGIONS, 1950–2025

Area: Age	Number (in millions)			
	1950	1975	2000	2025
World total:				
60 yr and over [1]	214	346	590	1,121
60 to 69	133	208	338	656
70 to 79	65	106	193	354
80 plus	15	32	60	111
More developed regions: [2]				
60 yr and over	95	166	230	315
60 to 69	56	93	119	162
70 to 79	31	53	81	109
80 plus	8	19	30	44
Less developed regions: [3]				
60 yr and over [1]	119	180	360	806
60 to 69	78	115	219	494
70 to 79	35	53	111	245
80 plus	7	13	29	67
	Percentage of population 60 years and over			
World total	100	100	100	100
More developed regions [2]	44	48	39	28
Less developed regions [3]	56	52	61	72

[1] Totals do not always add up because of rounding.

[2] More developed regions include Northern America, Japan, Europe, Australia, New Zealand, and U.S.S.R.

[3] Less developed regions include all regions other than the above.

Source: Estimates and projections of population by sex and age, 1950-2000; prepared by U.N. Population Division

TABLE 2.—NUMBER AND PERCENT DISTRIBUTION OF POPULATION 60 YR AND OVER, BY MAJOR REGIONS, FOR 1950, 1975, 2000, AND 2025

Area	Number in thousands				Percentage distribution			
	1950	1975	2000	2025	1950	1975	2000	2025
World total	213,962	345,875	590,360	1,121,658	100.00	100.00	100.00	100.00
Africa	12,082	19,947	42,726	101.962	5.65	5.78	7.24	9.09
Latin America	8,828	20,153	40,990	93,317	4.13	5.83	6.94	8.32
Northern America	20,062	34,491	44,727	76,483	9.38	9.97	7.58	6.82
East Asia	50,636	90,233	168,849	335,292	23.67	26.09	28.60	29.89
South Asia	54,142	62,433	133,421	307.823	25.30	18.05	22.60	27.44
Europe	50,554	82,389	101,595	129.060	23.63	23.82	17.21	11.51
Oceania	1,427	2,359	3,700	6,412	.65	.67	.62	.57
U.S.S.R	16,231	33,870	54,352	71,309	7.59	9.79	9.21	6.36

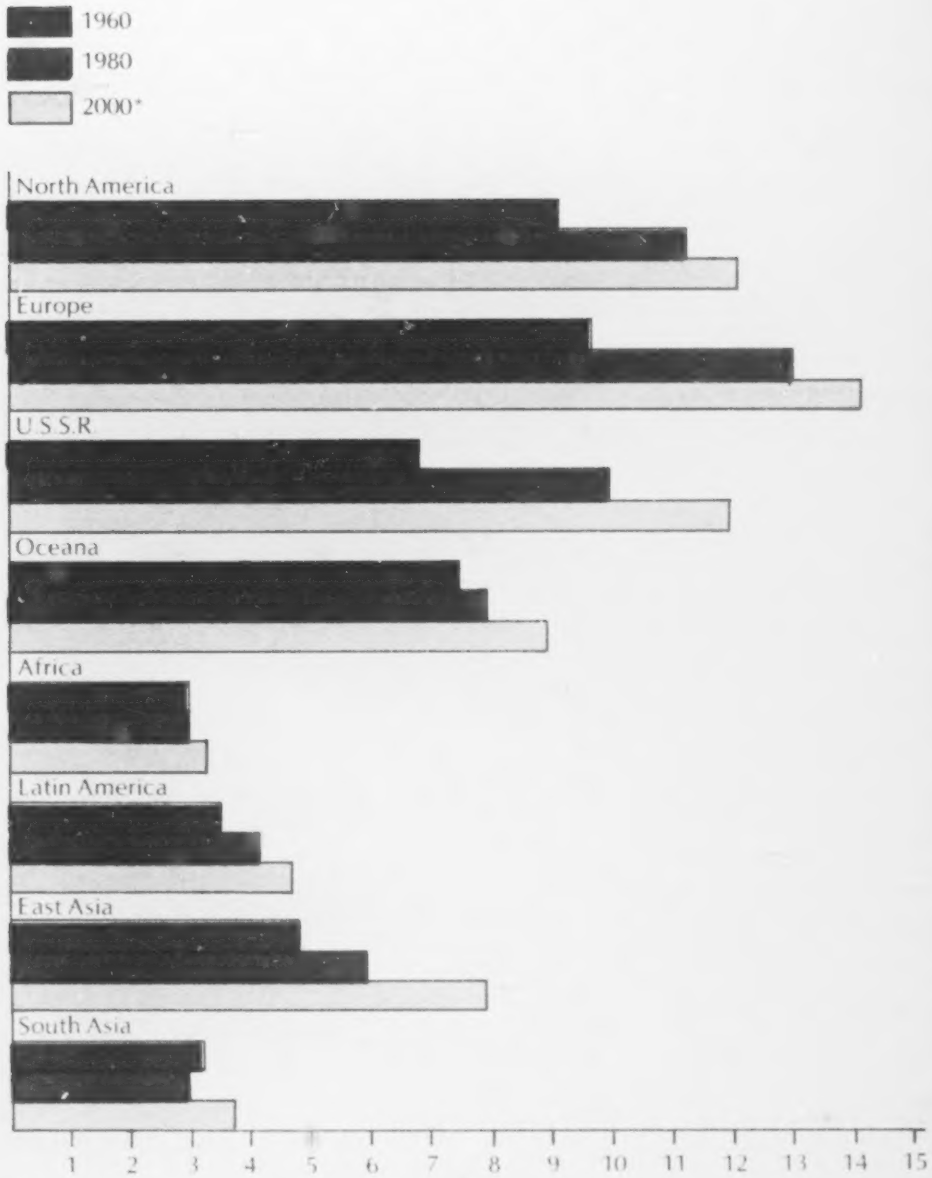
Source: Estimates and projections of population by sex and age, 1950-2000; prepared by U.N. Population Division

TABLE 3.—PROPORTION OF THE POPULATION 60 AND OVER TO TOTAL POPULATION BY MAJOR REGIONS AND SUBREGIONS FOR 1950, 1975, 2000, AND 2025

	1950	1975	2000	2025
A. Africa	5.50	4.91	5.02	6.62
1. Eastern Africa	5.01	4.77	4.61	5.70
2. Middle Africa	6.31	5.20	5.23	6.56
3. Northern Africa	5.81	5.38	5.87	9.18
4. Southern Africa	7.77	6.33	6.35	8.08
5. Western Africa	4.76	4.23	4.44	5.71
B. Latin America	5.39	6.27	7.25	10.79
6. Carribbean	6.29	7.57	8.56	13.08
7. Middle America	5.05	5.12	5.70	9.65
8. Temperate South America	7.18	11.01	13.35	17.03
9. Tropical South America	4.82	5.54	6.84	10.29
C. 10. Northern America	12.09	14.60	14.97	22.27
D. East Asia	7.53	8.23	11.45	19.59
11. China	7.63	7.96	10.71	19.34
12. Japan	7.70	11.70	20.46	25.20
13. Other East Asia	5.40	5.97	8.89	16.21
E. South Asia	7.56	4.97	6.43	10.92
14. Eastern South Asia	5.87	5.15	6.90	11.94
15. Middle South Asia	8.33	4.79	6.24	10.67
16. Western Asia	6.05	6.13	6.55	10.05
F. Europe	12.90	17.38	19.85	24.72
17. Eastern Europe	10.91	16.29	18.35	22.05
18 Northern Europe	14.93	19.28	19.95	25.72
19 Southern Europe	11.05	15.43	20.06	24.44
20 Western Europe	14.79	18.84	20.75	26.81
G. Oceania	11.29	11.13	12.46	17.79
21. Australia-New Zealand	12.59	12.78	14.78	21.73
22. Melanesia	6.29	5.15	5.75	8.32
23. Micronesia-Polynesia	5.50	4.62	6.99	13.26
H. 24. U.S.S.R	9.02	13.37	17.52	20.09

Source: Estimates and projections of population by sex and age, 1950-2000; prepared by U.N. Population Division.

Percent of Total Population Aged 65 and older by World Regions, 1960, 1980 and 2000



*Projections

Source: United Nations Statistical Yearbook

A. COMMITTEE ACTIVITIES

In recognition of the far-reaching ramifications of these demographic trends, the United States initiated proposals in 1977 to focus worldwide attention on the problems associated with the growing proportion of the aged in the world's population.

Resolutions were introduced in Congress by the Senate Special Committee on Aging and the House Select Committee on Aging requesting the U.S. delegation to the United Nations to work with the delegations of other member nations to call for a World Assembly and a World Year on Aging not later than 1982. House Resolution 736 subsequently was adopted and, in 1978, the U.S. delegation introduced a resolution at the U.N. requesting such an assembly. The U.N. unanimously adopted this resolution calling for a World Assembly on the Elderly, the name of which was later changed to the World Assembly on Aging.

An amendment to the International Development and Food Assistance Act of 1978 (Public Law 95-424) authorized the United States to contribute 25 percent or $1 million, whichever is lower, of the cost of a World Assembly and World Year on Aging. To date, the United States has contributed $250,000. The Congress has approved an additional contribution of $400,000, bringing the total U.S. contribution to $650,000. Contributions anticipated from other countries include $100,000 each from Sweden, Germany, and Japan; $20,000 from Malta; and $3.5 million from Austria, the host country. Although the State Department has received indications that additional pledges are forthcoming, no formal commitments have been made as of February 1982.

While a major impetus for the World Assembly stemmed from the concern on the part of industrialized nations for the future health and welfare of the elderly in developing countries, all nations, including the United States, can benefit from this international forum.

Many European countries have implemented more comprehensive public programs than the United States in meeting the income maintenance, health care, housing, and social service needs of the elderly. The over-65 populations of Western European countries now represent 15 percent of their total population compared to only 11 percent in the United States. European countries, therefore, have a comparative wealth of experience in addressing the needs of their elderly citizens.

The value of their experience is demonstrated in the area of social security. Despite the greater proportion of retirees in their populations, the social security systems of Western European countries have not only survived, but they enjoy a level of public confidence among their citizens that probably exceeds the public confidence in theAmerican system. The Special Committee on Aging has published an information paper on this issue, "Social Security in Europe: The Impact of an Aging Population." The paper is a comparative study of the adaptation of the social security systems of the countries of Western Europe to demographic changes that will also confront the United States.

This is but one example of the type of information that will be forthcoming from the World Assembly that may benefit the United States. Other important issues to be addressed that are of special concern to industrialized nations include:

—The effects of raising the mandatory retirement age.
—The impact of an increased number of older workers on other segments of the work force and on the economy.
—Efforts to eliminate unnecessary institutionalization and the development of alternatives for older people who do not require institutional care.
—Universal comprehensive health care coverage and pension systems.

B. UNITED NATIONS ACTIVITIES

Passage of the resolution calling for the World Assembly was preceded by many years of activities by the United Nations directed toward concerns of the elderly.

As early as 1949, a resolution was adopted by the U.N. General Assembly calling for a study of policies in varying countries with comprehensive old-age security programs, including old-age pensions, health care, and housing programs and the impact of such measures on the standard of living of the aged. The report of this study was the first U.N. attempt to gather information on the aged on a worldwide basis.

In 1969, the Secretary General issued a preliminary report stressing that policies and programs for the elderly should be part of the overall economic and social planning of a country, and emphasizing the importance of coordinating studies and programs on aging within the U.N. structure. A further report was issued in 1973 on the changing socioeconomic and cultural role and status of the aged in developed and developing countries. The report contained guidelines for national policies and international action related to the needs of the elderly.

Since 1973, organizations within the U.N. have issued further reports concerning the aged population of individual nations. In addition, an information exchange system was established for collecting and disseminating materials on aging; studies and research have been promoted; conferences have been held; and technical assistance has been provided for countries planning and implementing programs for older people.

In 1977, the Economic and Social Council of the U.N. requested the Secretary General to pursue, expand, and consolidate activities regarding the status of the elderly. In December 1978, the U.N. approved by unanimous consent, a resolution introduced by the U.S. delegation calling for a World Assembly on Aging and authorizing a study of the feasibility of observing an International Year on Aging. While action proceeded on the World Assembly, it was decided not to observe a special year.

1. Preliminary Activities

The 1978 resolution requested the Secretary General, in consultation with member States and the specialized agencies and organizations concerned, to prepare a draft international plan of action on aging for the World Assembly for submission to the General Assembly at its 35th session.

The General Assembly requested the Secretary General to establish a voluntary fund for the World Assembly; to invite member States to establish national committees for the World Assembly and to conduct preparatory activities at the national level; and to appoint a Secretary-General for the World Assembly on Aging.

Mr. William Kerrigan, formerly General Secretary of the International Federation on Ageing, was appointed as Secretary-General to the World Assembly on Aging on May 2, 1980. Mr. Kerrigan's appointment is particularly significant as it represents the first time that a U.S. citizen has been named to head a U.N. global conference.

In 1980, a resolution was adopted by the General Assembly accepting the proposals of the Secretary General and establishing an advisory committee to advise him on activities concerning the World Assembly.

The purpose of the World Assembly was described as follows:

—To focus the attention of governments on the various issues of aging in designing policies and programs for economic and social development, in both developed and developing countries.

—To provide an international forum for an exchange of views among governments on ways and means of dealing with issues of the aging, including the machinery required for administrative and legislative actions.

—To identify aspects of various issues and consider methods to meet the need for action at the national, regional, and international levels, and to consider how countries can, through increased international cooperation, derive benefits from the knowledge and experience already acquired regarding the various issues of the aging.

—To focus attention on and encourage wider participation in and support for present and future activities and programs of the U.N. organizations and other international organizations related to aging, and to give them guidelines and directions.

2. ADVISORY COMMITTEE ACTIVITIES

A 22-nation advisory committee was established to insure that the preparations for the World Assembly would be underway by early 1981, and to advise the Secretary General on all matters concerning the Assembly. The chairman of the third committee of the General Assembly designated the following member States as members of the Advisory Committee on the basis of geographical distribution: Benin, Byelorussian Soviet Socialist Republic, Chile, Costa Rica, Dominican Republic, France, Hungary, India, Indonesia, Japan, Lebanon, Malta, Morocco, Nigeria, Philippines, Spain, Suriname, Sweden, Togo, Union of Soviet Socialist Republics, United States, and Venezuela.

The committee recommended that the work of the Assembly be carried on through three sessions meeting simultaneously—a plenary session and two committees which would consider special aspects of the problems of aging.

The first meeting of the Advisory Committee took place in Vienna, Austria, from August 17–21, 1981. The main task of the first meeting was to formulate the framework for an international plan of action on aging which will be adopted by the World Assembly. In formulating the framework, the Committee drew up a series of principles and objectives which might be included in the plan. Included were suggestions that the aging should be encouraged and enabled to live and function as normally as possible within their own environment and should be encouraged and assisted to determine their own modes of living. They should also be encouraged and enabled to influence and participate in decisions concerning their own lives and welfare and, through meaningful activity, should be motivated to play a creative role in the community. Further, the committee advised that the elderly be considered a valuable and valued resource, and assured of social, economic and personal security.

Two additional meetings of the Advisory Committee have been scheduled for February 16–22, 1982, in New York and May 3–7, 1982, in Vienna. Among the preparatory activities planned for these meetings include consideration of a draft international plan of action on aging and the feasibility of presenting a declaration on the rights of the aging to the World Assembly.

3. CONTRIBUTING U.N. ORGANIZATIONS

Seven U.N. organizations were involved in reviewing and coordinating the activities of the U.N. system in preparation for the World Assembly: The Food and Agriculture Organization (FAO), the World Health Organization (WHO), the International Labor Organization (ILO), the U.N. Educational, Scientific, and Cultural Organization (UNESCO), the U.N. High Commissioner for Refugees (UNHCR), the U.N. Fund for Population Activities (UNFPA), and the U.N. Relief and Works Organization (UNRWA). These organizations held conferences and seminars and prepared reports and technical papers on issues concerning the aged.

4. REPORTS OF THE TECHNICAL MEETINGS ON AGING

In preparation for the World Assembly on Aging, countries from the six major regions of the world convened technical meetings on aging to discuss issues of importance to aging populations in general and individual nations in particular. Among the major regions participating in these meetings were the Middle East and Mediterranean Region (Valletta, Malta, June 3–6, 1980), the Latin American Region (San Jose, Costa Rica, December 2–5, 1980), the Asian and Pacific Region (Bangkok, Thailand, January 27–30, 1981), the African Region (Laos, Nigeria, February 24–27, 1981), the European Region (Frankfort/Main, Germany, June 10–12, 1981), and the North American Region (Washington, D.C., U.S.A., June 15–19, 1981). Although the Socialist countries of Eastern Europe did not conduct a technical meeting, a report on the status and condition of the elderly in these countries was prepared by experts from this region as a contribution to the World Assembly.

The technical meetings on aging were convened at the invitation of the United Nations Secretariat. Financial assistance for these meetings in the developing countries was provided by the U.N. Fund for Population Activities.

The first five meetings were sponsored by the governments of the countries designated above in cooperation with the United Nations Centre for Social Development and Humanitarian Affairs; the North American Technical Meeting was jointly sponsored by the United States Department of State and the National Council on Aging. The purpose of these meetings was to assemble a group of experts to assess global and sub-regional concerns of the aging and to prepare a report to be used as a basic working document for the United Nations Regional Meetings of Policy Makers following the Technical Meetings on Aging. The United Nations Centre for Social Development and Humanitarian Affairs developed two major documents to assist in this assessment: "Aging and Development: The Developmental Issues" and "Aging and Development: The Humanitarian Issues." Additional documents used in this process included reports focusing on the status and condition of the aging in individual countries.

At the suggestion of the Secretary General, the issues addressed by the technical meetings for consideration by the World Assembly were grouped under two major topics—developmental and humanitarian concerns. The development issues relate to economic and demographic characteristics of a society and focus on the impact of these characteristics on society as a whole. The humanitarian issues are associated with the promotion of human welfare and social reform and arise from the need to allocate societal resources to address social problems and needs.

Recognizing the interrelationships between the developmental processes and humanitarian issues, the following recommendations were formulated by the technical committees regarding national policy affecting the aging populations of the world:

Health

The development of policies and programs, including "wellness" clinics and outreach programs, focusing on preventive and primary care throughout the life span, and improved health promotion and disease prevention programs for the elderly.

The establishment of coordinated systems of continuing health and social services at the community level.

The establishment of policies and programs to address the health care needs of the rural aged, using indigenous manpower agencies and services whenever possible.

The development of policies which strengthen and expand the financing mechanisms for health and continuing care services, and national health care plans for people of all ages.

The establishment of policies and programs giving priority to geriatric training and health education for health professionals at all levels, including general practitioners, auxiliary and para-medical personnel.

The development of geriatric and gerontological health education programs for the general population.

The direction of health policy toward alternative service mechanisms and family support to reduce institutionalization.

The establishment of the elderly as a priority in formulating social, economic, and health policy.

Social Welfare

Increased access to coordinated networks of social services.

The employment of a holistic approach to health and well-being for the elderly.

The establishment of formal support systems, including professional, community, and voluntary activities.

Encouragement of informal support systems such as self-help, family support, community, and voluntary support activities.

The establishment of programs promoting the training of social welfare providers in gerontology and geriatrics and the education of policymakers regarding the special needs of the elderly.

The development of policies and programs which tap the elderly's reservoir of talents and capabilities in the planning and delivery of services.

Housing and the Environment

The development of alternative housing for the elderly, ranging from extended housing for families caring for elderly dependents to institutional settings designed to encourage the elderly to remain independent.

The development of "long-term" housing and "lifelong" housing which is easily adaptable and modifiable to the changing needs of the aging.

The development of innovative housing designs, including mobile units, communal housing, and institutional halfway houses.

The development of policies and programs which reduce hazardous living environments for the aged and remove barriers to access.

The establishment of transportation systems which meet the needs of the elderly and increase access to health and social services.

The development of policies and programs which reduce the housing and energy costs for low-income elderly through approaches such as housing and energy allowances and reduced taxes or rebates.

Education

Geriatric education programs designed to encourage the awareness of the public at large regarding the needs of the aged.

Education and retraining programs, including pre- and post-retirement programs to educate the elderly and increase life satisfaction in the later stages of life.

Inclusion of information on available social services and procedures for claiming benefits in educational programs for the elderly.

Encouragement of education for the advancement and training of professionals in all areas of service to the elderly.

Development of educational policies which reflect the right of the aging to education and the appropriate allocation of resources to various age groups for this purpose.

The development of programs which focus on a lifespan approach to education.

The formulation of policies and programs which provide training and education for technologically displaced older persons and tap the skills and experience of the aging.

Employment

Provision of alternative remunerative occupational opportunities for older people who want to work.

Examination of early retirement programs, means-tested retirement benefits, and other policies which tend to discourage older people from remaining in the work force.

The establishment of retraining programs for older workers in new technologies, particularly with regard to the low-income rural elderly in agricultural occupations.

The establishment and enforcement of laws to bar age discrimination in employment and the development of policies calling for the right to work, regardless of age.

Income security

The development of public policies and programs of social security which would assure all older persons, including agricultural wage earners, the self-employed and women, an adequate minimum income, a reasonable replacement of previous earnings and periodic cost-of-living-adjustments.

The formulation of policies and programs which develop flexible approaches to work and retirement and to income security in old age, including measures such as part-time work, gradual retirement, and a mixture of income sources in old age.

The formulation of in-kind assistance programs for the low-income elderly in the areas such as housing, transportation and nutrition.

Other

Support for the extended family in its traditional role of caring for the aging, through tax relief, vouchers, or other economic incentives.

Emphasis on the specific problems of older women.

Development of policies to enable the elderly to contribute to society and to encourage their participation.

The establishment of international systems for geriatrics, gerontology, and data collection.

The emphasis of mass media in the dissemination of information about the aging and public information campaigns designed to promote a positive image of the contribution of the aging to society and to dispell the myths about the process of aging as being an inevitable period of decline and disability.

5. Reports of the U.N. Regional Meetings of Policymakers

The reports produced by the technical meetings on aging will serve as the focal point for discussions at the United Nations regional meetings of policymakers planned for 1981 and 1982. The following conferences have been scheduled: The Economic and Social Commission for Asia and the Pacific Preparatory Meeting (Manila, October 19 to 23, 1981); the economic Commission for Africa Preparatory Meeting (Addis Ababa, March 1 to 5, 1982); the Economic Commission for Latin America Preparatory Meeting (San Jose, Costa Rica, March 8 to 12, 1982); and the Economic Commission for Europe Preparatory Meeting (Vienna, April 26 to 30, 1982).

The reports from the technical meetings of the North American and Mediterranean nations will be considered by the Economic Commission for Europe, while the Middle Eastern countries will not be participating in further preparatory meetings.

The regional meetings of policymakers will provide a regional forum for high-level representatives of the members and associate members of the regional commissions to discuss common issues and to exchange experiences and information relating to existing policies and programs designed for the aging population.

Representatives will also discuss in depth specific humanitarian and developmental issues relating to the aging population, particularly with regard to the elderly populations residing in rural areas. The final objective of these meetings will be to formulate a regional program of action. This program will serve as a guideline for action by Member States as well as input to the international plan of action.

B. FORUM OF NONGOVERNMENTAL ORGANIZATIONS

A forum of nongovernmental organizations will be held in Vienna, Austria, from March 29 to April 2, 1982. These organizations, all concerned with aging issues, will formulate recommendations for aging policy for inclusion in the U.N. proposals to the World Assembly.

Organizations from each major region of the world will be invited and representation from developing countries will be encouraged.

The general theme for the forum is "The Social and Economic Integration and Participation of the Aging." Eight major topics will be addressed:

(1) The changing roles of the family as a support unit.

(2) Economic needs and challenges facing aging societies and the contribution of the elderly to production, distribution, and consumption of resources.

(3) Income maintenance and economic independence.

(4) The use of time over an individual's lifespan and the need for flexible approaches to continued education, reallocated working time, and family and community contributions.

(5) The changing ecology of aging through social concerns such as housing, transportation, conditions of employment, education, recreation, and the provision of services, and the need for viable alternatives facilitating the development of informal support services and networks.

(6) The interactive role of health and social services in the promotion of optimal health for older people.

(7) The assessment of education and training programs for those charged with the responsibility of care for elderly dependent and self-care programs for the elderly themselves.

(8) The need for integrated solutions—psychological, economic, and social—to promote intergenerational co-existence.

Each of the content areas will be coordinated by an individual organization. The following organizations have accepted responsibility for this task:

International Union of Family Organizations (France).
International Federation of Aging (France).
International Social Security Administration (Switzerland).
International Center of Social Gerontology (France).
European Federation for the Welfare of the Elderly (Austria).
Age Concern (Great Britain).
Nongovernmental Organizations Committee on Aging (United States).
International Association of Gerontology (United States).

C. SUMMARY

The final product of the World Assembly on Aging will be an international plan of action on aging designed to address the concerns of the aging on a national and international basis. The World Assembly will submit its plan of action to the United Nations General Assembly Third Committee on Economic and Social Affairs at the close of the Assembly for approval and implementation by the General Assembly of the United Nations.

The plan of action will be based on a number of principles such as the improvement of levels of living and the quality of life of older people, respect for human life, the rights and obligations of the aged, the family role, the quality of the environment, the rapid demographic change and the consequent interrelatedness of the aging population and development. It will be designed to promote understanding and an international and national response to the needs of the aged, and to the aging of populations.

It is the hope of all nations participating in the World Assembly on Aging that the launching of an international plan of action will contribute to the formulation of policies and programs aimed at guaranteeing social and economic security to older adults, as well as providing opportunities for them to participate and share in the benefits of development. This plan will also attempt to focus the attention of Governments on the various issues of aging; to present alternatives to meet the need for action at the national, regional and international level, and to present guidelines which would encourage wider participation in and support for present and future activities and programs of the United Nations and other international organizations with regard to the needs of aging populations.

SUPPLEMENTAL MATERIAL

Supplement 1

MAJOR LEGISLATION PASSED IN FIRST SESSION OF 97TH CONGRESS AFFECTING OLDER AMERICANS

THE OMNIBUS BUDGET RECONCILIATION ACT OF 1981

June 16, 1981 : S. 1377 introduced in Senate by Senator Pete Domenici
June 19, 1981 : H.R. 3982 introduced in House by Rep. Jim Jones
June 19, 1981 : House Committee on The Budget reported an original measure, Report No. 97-158
June 24, 1981 : H.R. 3942 and six specific amendments offered in the nature of a substitute as an original bill
June 26, 1981 : Passed House (amended)
July 13, 1981 : Senate struck all after the Enacting Clause and substituted the language of S. 1377, amended
July 17, 20-25, 27-28 : House and Senate Conference
July 29, 1981 : Conference Report No. 97-208 filed in House
July 31, 1981 : House agreed to Conference Report
July 31, 1981 : Senate agreed to Conference Report
Aug. 13, 1981 : Signed by President, Public Law 97-35

SOCIAL SECURITY MINIMUM BENEFIT AMENDMENT (A bill to amend the Omnibus budget Reconciliation Act of 1981 to restore minimum benefits under the Social Security Act)

July 30, 1981 : H.R. 4331 introduced in House by Rep. Richard Bolling
July 31, 1981 : Passed House
Oct. 15, 1981 : Passed Senate (amended)
Nov. 16, 1981 : House and Senate Conference
Dec. 14, 1981 : Conference Report 97-409 filed in House
Dec. 15, 1981 : Senate agreed to Conference Report
Dec. 16, 1981 : House agreed to Conference Report
Dec. 29, 1981 : Signed by President, Public Law 97-123

THE ECONOMIC RECOVERY TAX ACT OF 1981

July 23, 1981 : H.R. 4242 introduced in House by Rep. Dan Rostenkowski
July 24, 1981 : House Committee on Ways and Means reported to House, Report No. 97-201
July 29, 1981 : Passed House (amended)
July 31, 1981 : Senate struck all after the Enacting Clause and substituted the language of H.J.Res. 266 (amended)
July 31, 1981 : Passed Senate in Lieu of H.J.Res. 266 (amended)
July 31, 1981 : House and Senate Conference
Aug. 1, 1981 : Conference Report 97-176 filed in Senate
Aug. 1, 1981 : Conference Report 97-215 filed in House
Aug. 3, 1981 : Senate agreed to Conference Report
Aug. 4, 1981 : House agreed to Conference Report
Aug. 4, 1981 : Cleared for White House
Aug. 13, 1981 : Signed by President, Public Law 97-34

OLDER AMERICANS REAUTHORIZATION ACT AMENDMENTS OF 1981

April 30, 1981 : S. 1086 introduced in Senate by Senator Jeremiah Denton
July 20, 1981 : Senate Committee on Labor and Human Resources reported favorably to Senate (amended), Report No. 97-159
Nov. 2, 1981 : Passed Senate (amended)
Nov. 20, 1981 : Passed House (amended)
Dec. 10, 1981 : Conference Report 97-293 filed in Senate
Dec. 10, 1981 : Conference Report 97-386 filed in House
Dec. 11, 1981 : Senate agreed to Conference Report
Dec. 16, 1981 : House agreed to Conference Report
Dec. 29, 1981 : Signed by President, Public Law 97-115

CONTINUING APPROPRIATIONS RESOLUTION (to expire November 20, 1981)

Sept. 11, 1981 : H.J.Res. 325 introduced in House by Rep. Jamie Whitten
Sept. 14, 1981 : Reported by House Appropriations Committee, Report No. 97-223
Sept. 16, 1981 : Passed House
Sept. 25, 1981 : Passed Senate
Sept. 28, 30, 1981 : House and Senate Conference
Sept. 30, 1981 : Conference Report 97-260 filed in House
Sept. 30, 1981 : Senate agreed to Conference Report
Sept. 30, 1981 : House agreed to Conference Report
Oct. 1, 1981 : Signed by President, Public Law 97-51

CONTINUING APPROPRIATIONS RESOLUTION (to expire July 15, 1982)

Nov. 11, 1981 : H.J.Res. 357 introduced in House by Rep. Jamie Whitten
Nov. 12, 1981 : Reported by House Appropriations Committee, Report No. 97-319
Nov. 16, 1981 : Passed House
Nov. 17, 1981 : Reported by Senate Appropriations Committee, no written report
Nov. 20, 1981 : Passed Senate
Nov. 22, 1981 : Conference Report 97-352 filed in House
Nov. 22, 1981 : House agreed to Conference Report
Nov. 22, 1981 : Senate agreed to Conference Report
Nov. 23, 1981 : Vetoed by President

CONTINUING APPROPRIATIONS RESOLUTION (to expire December 15, 1981)

Nov. 23, 1981 : H.J.Res. 368 introduced in House by Rep. Jamie Whitten
Nov. 23, 1981 : Passed House
Nov. 23, 1981 : Passed Senate
Nov. 23, 1981 : Signed by President, Public Law 97-85

CONTINUING APPROPRIATIONS RESOLUTION (to expire March 31, 1982)

Dec. 9, 1981 : H.J.Res. 370 introduced in House by Rep. Jamie Whitten
Dec. 9, 1981 : Reported by House Appropriations Committee, Report No. 97-372
Dec. 10, 1981 : Passed House
Dec. 11, 1981 : Passed Senate
Dec. 15, 1981 : Signed by President, Public Law 97-92

Supplement 2

1981 HEARINGS

before

THE SENATE SPECIAL COMMITTEE ON AGING

Impact of Federal Estate Tax Policies on Rural Women, Washington, D.C., February 4, 1981.

Impact of Federal Budget Proposals on Older Americans:
  Part 1. Washington, D.C., March 20, 1981.
  Part 2. Washington, D.C., March 27, 1981.
  Part 3. Philadelphia, Pa., April 10, 1981.

Energy and the Aged, Washington, D. C., April 9, 1981.

Older Americans Act, Washington, D.C., April 27, 1981.

Social Security Reform: Effect on Work and Income After Age 65, Rogers, Ark., May 18, 1981.

Social Security Oversight:
  Part 1. (Short-Term Financing Issues). Washington, D.C., June 16, 1981.
  Part 2. (Early Retirement). Washington, D.C., June 18, 1981.
  Part 3. (Cost-of-Living Adjustments). Washington, D.C., June 24, 1981.

Medicare Reimbursement to Competitive Medical Plans, Washington, D.C., July 29, 1981.

Rural Access to Elderly Programs, Sioux Falls, S. Dak., August 3, 1981.

Frauds Against the Elderly, Harrisburg, Pa., August 4, 1981.

The Social Security System: Averting the Crisis, Evanston, Ill., August 4, 1981.

Social Security Reform and Retirement Income Policy, Washington, D.C., September 16, 1981.

Older Americans: Fighting the Fear of Crime, Washington, D.C., September 22, 1981.

Employment: An Option for All Ages, Rock Island, Ill. and Davenport, Iowa, October 12, 1981.

Older Workers: The Federal Role in Promoting Employment Opportunities, Washington, D.C., October 29, 1981.

Health Care and the Aged, Grand Forks, N.Dak., November 14, 1981.

Oversight of Health and Human Services Inspector General's Anti-Fraud, Abuse, and Waste Activities, Washington, D.C. December 9, 1981. (Joint hearing with Senate Finance Committee)

Supplement 3

COMMITTEE PRINTS AND REPORTS PRINTED BY THE SPECIAL COMMITTEE ON AGING IN 1981

1. THE PROPOSED FISCAL YEAR 1982 BUDGET: WHAT IT MEANS FOR OLDER AMERICANS, APRIL 1981.
2. ACTION ON AGING LEGISLATION IN THE 96TH CONGRESS, APRIL 1981.
3. DEVELOPMENTS IN AGING: 1980, PART 1, MAY 1981.
4. DEVELOPMENTS IN AGING: 1980, PART 2, MAY 1981.
5. SOCIAL SECURITY FINANCING: ISSUES AND OPTIONS, JULY 1981.
6. ENERGY AND THE AGED, AUGUST 1981.
7. 1981 FEDERAL INCOME TAX LEGISLATION: HOW IT AFFECTS OLDER AMERICANS AND THOSE PLANNING RETIREMENT, AUGUST 1981.
8. PUBLICATIONS LIST, AUGUST 1981.
9. OMNIBUS BUDGET RECONCILIATION ACT OF 1981, PUBLIC LAW 97-37 (SELECTED PROVISIONS AFFECTING THE ELDERLY), SEPTEMBER 1981.
10. TOWARD A NATIONAL OLDER WORKER POLICY, SEPTEMBER 1981.
11. CRIME AND THE ELDERLY--WHAT YOU CAN DO, SEPTEMBER 1981.
12. SOCIAL SECURITY IN EUROPE: THE IMPACT OF AN AGING POPULATION, DECEMBER 1981.
13. BACKGROUND MATERIALS RELATING TO OFFICE OF INSPECTOR GENERAL, DEPARTMENT OF HEALTH AND HUMAN SERVICES EFFORTS TO COMBAT FRAUD, WASTE, AND ABUSE, DECEMBER 1981.
14. PROTECTING OLDER AMERICANS AGAINST OVERPAYMENT OF INCOME TAXES, DECEMBER 1981.
15. A GUIDE TO INDIVIDUAL RETIREMENT ACCOUNTS (IRA's), DECEMBER 1981.

Supplement 4

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Age Discrimination,
Retirement Income,
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Supplement 5

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—If you would like more than one copy of a publication, they should be ordered from the Government Printing Office.

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***If the Government Printing Office's supply has been exhausted—as indicated by three asterisks—a single copy may be obtained from the committee.

While a single copy of a publication is available, free of charge, from the committee, the Government Printing Office charges for publications. When ordering a publication from the Government Printing Office, give title of publication and catalog number (for example, The Proposed Fiscal 1981 Budget: What It Means for Older Americans, Cat. No. Y4.Ag4:B85/981), and attach a check or money order for the amount of purchase, made payable to: Government Printing Office.

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ADDRESSES FOR REQUESTING PUBLICATIONS

Documents
Special Committee on Aging
U.S. Senate
G-233, Dirksen Building
Washington, D.C. 20510

Superintendent of Documents
Government Printing Office
Washington, D.C. 20402

REPORTS

Action for the Aged and Aging, Report No. 128, March 1961.**
Action for the Aged and Aging, summary and recommendations of Report No. 128, 1961.**
Developments in Aging, 1959–63, Report No. 8, February 1963.**
Developments in Aging, 1963–64, Report No. 124, March 1965.**
Developments in Aging, 1965, Report No. 1073, March 15, 1966.**
Developments in Aging, 1966, Report No. 169, April 1967.**
Developments in Aging, 1967, Report No. 1098, April 1968.**
Developments in Aging, 1968, Report No. 91–119, April 1969.**
Developments in Aging, 1969, Report No. 91–875, February 1970.**
Developments in Aging, 1970, Report No. 92–46, March 1971.**
Developments in Aging: 1971 and January–March 1972, Report No. 92–784, April 1972.**
Developments in Aging: 1972 and January–March 1973, Report No. 93–147, May 1973.**
Developments in Aging: 1973 and January–March 1974, Report No. 93–846, May 1974.**
Developments in Aging: 1974 and January–April 1975, Report No. 94–250, June 1975.**
Developments in Aging: 1975 and January–May 1976—Part 1, Report No. 94–998, June 1976 (Cat. No. 94/2: S. Rept. 998/Pt. 1)—$2.95.*
Developments in Aging: 1975 and January–May 1976—Part 2, Report No. 94–998, June 1976 (Cat. No. 94/2: S. Rept. 998/Pt. 2)—$2.55.*
Developments in Aging: 1976—Part 1, Report No. 95–88, March 1977.***
Developments in Aging: 1976—Part 2, Report No. 95–88, March 1977.***
Developments in Aging: 1977—Part 1, Report No. 95–771, April 1978 (Cat. No. 95/2: S. Rept. 771/Pt. 1)—$4.25.*
Developments in Aging: 1977—Part 2, Report No. 95–771, April 1978 (Cat. No. 95/2: S. Rept. 771/Pt. 2)—$3.75.*
Developments in Aging: 1978—Part 1, Report No. 96–55, March 1979 (Cat. No. 96/1: S. Rept. 55/Pt. 1)—$3.75.
Developments in Aging: 1978—Part 2, Report No. 96–55, March 1979 (Cat. No. 96/1: S. Rept. 55/Pt. 2)—$3.75.
Developments in Aging: 1979—Part 1, Report No. 96–613, February 1980 (Cat. No. 96/2: S. Rept. 613/Pt. 1)—$5.50.
Developments in Aging: 1979—Part 2, Report No. 96–613, February 1980 (Cat. No. 96/2: S. Rept. 613/Pt. 2)—$6.
Developments in Aging: 1980—Part 1, Report No. 97–62, April 1981 (Cat. No. 97/1: S. Rept. 62/Pt. 1)—$5.50.
Developments in Aging: 1980—Part 2, Report No. 97–62, April 1981 (Cat. No. 97/1: S. Rept. 62/Pt. 2)—$6.50.

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Developments in Aging: 1981—Part 1, Report No. 97—, February 1982 (Cat. No. 97/2: S. Rept. —/Pt. 1)—$0.00.

Developments in Aging: 1981—Part 2, Report No. 97—, February 1982 (Cat. No. 97/2: S. Rept. —/Pt. 2)—$0.00.

Comparison of Health Insurance Proposals for Older Persons, 1961, committee print, April 3, 1961.**

The 1961 White House Conference on Aging, basic policy statements and recommendations, committee print, May 15, 1961.**

New Population Facts on Older Americans, 1960, staff report, committee print, May 24, 1961.**

Basic Facts on the Health and Economic Status of Older Americans, staff report, committee print, June 2, 1961.**

Health and Economic Conditions of the American Aged, chart book, committee print, June 1961.**

State Action To Implement Medical Programs for the Aged, staff report, committee print, June 8, 1961.**

A Constant Purchasing Power Bond: A Proposal for Protecting Retirement Income, committee print, August 1961.**

Mental Illness Among Older Americans, committee print, September 8, 1961.**

Comparison of Health Insurance Proposals for Older Persons, 1961–62, committee print, May 10, 1962.**

Background Facts on the Financing of the Health Care of the Aged, committee print, excerpts from the report of the Division of Program Research, Social Security Administration, Department of Health, Education, and Welfare, May 24, 1962.**

Statistics on Older People: Some Current Facts About the Nation's Older People, June 14, 1962.**

Performance of the States: 18 Months of Experience With the Medical Assistance for the Aged (Kerr-Mills) Program, committee print report, June 15, 1962.**

Housing for the Elderly, committee print report, August 31, 1962.**

Some Current Facts About the Nation's Older People, October 2, 1962.**

A Compilation of Materials Relevant to the Message of the President of the United States on Our Nation's Senior Citizens, committee print, June 1963.**

Medical Assistance for the Aged: The Kerr-Mills Program, 1960–63, committee print report, October 1963.**

Blue Cross and Private Health Insurance Coverage of Older Americans, committee print report, July 1964.**

Increasing Employment Opportunities for the Elderly—Recommendations and Comment, committee print report, August 1964.**

Services for Senior Citizens—Recommendations and Comment, Report No. 1542, September 1964.**

Major Federal Legislative and Executive Action Affecting Senior Citizens, 1963–64, staff report, committee print, October 1964.**

Frauds and Deceptions Affecting the Elderly—Investigations, Findings, and Recommendations, 1964, committee print report, January 1965.**

Extending Private Pension Coverage, committee print report, June 1965.**

Note: When requesting or ordering publications in this listing, it is important that you first read the instructions on page 1.

Health Insurance and Related Provisions of Public Law 89-97: The Social Security Amendments of 1965, committee print, October 1965.**

Major Federal Legislative and Executive Actions Affecting Senior Citizens, 1965, staff report, committee print, November 1965.**

Services to the Elderly on Public Assistance, committee print report, March 1966.**

The War on Poverty As It Affects the Elderly, Report No. 1287, June 1966.**

Needs for Services Revealed by Operation Medicare Alert, committee print report, October 1966.**

Tax Consequences of Contributions to Needy Older Relatives, Report No. 1721, October 13, 1966.**

Detection and Prevention of Chronic Disease Utilizing Multiphasic Health Screening Techniques, committee print report, December 30, 1966.**

Reduction of Retirement Benefits Due to Social Security Increases, committee print report, August 21, 1967.**

Economics of Aging: Toward a Full Share in Abundance, working paper, committee print, March 1969.** [1]

Homeownership Aspects of the Economics of Aging, working paper, factsheet, July 1969.** [1]

Health Aspects of the Economics of Aging, working paper, committee print, July 1969 (revised).** [1]

Social Security for the Aged: International Perspectives, working paper, committee print, August 1969.** [1]

Employment Aspects of the Economics of Aging, working paper, committee print, December 1969.** [1]

Pension Aspects of the Economics of Aging: Present and Future Roles of Private Pensions, working paper, committee print, January 1970.** [1]

The Stake of Today's Workers in Retirement Security, working paper, committee print, April 1970.** [1]

Legal Problems Affecting Older Americans, working paper, committee print, August 1970.** [1]

Income Tax Overpayments by the Elderly, Report No. 91-1464, December 1970.**

Older Americans and Transportation: A Crisis in Mobility, Report No. 91-1520, December 1970.**

Economics of Aging: Toward a Full Share in Abundance, Report No. 91-1548, December 31, 1970.**

Medicare, Medicaid Cutbacks in California, working paper, factsheet, May 10, 1971.** [1]

The Nation's Stake in the Employment of Middle-Aged and Older Persons, working paper, committee print, July 1971.**

The Administration on Aging—Or a Successor? Committee print report, October 1971.**

Alternatives to Nursing Home Care: A Proposal, committee print, October 1971.**

Mental Health Care and the Elderly: Shortcomings in Public Policy, Report No. 92-433, November 1971.**

The Multiple Hazards of Age and Race: The Situation of Aged Blacks in the United States, Report No. 92-450, November 1971.**

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[1] Working paper incorporated as an appendix to the hearing.

NOTE: When requesting or ordering publications in this listing, it is important that you first read the instructions on page 1.

Advisory Council on the Elderly American Indian, working paper, committee print, November 1971.**

Elderly Cubans in Exile, working paper, committee print, November 1971.**

A Pre-White House Conference on Aging: Summary of Developments and Data, Report No. 92-505, November 1971.**

Research and Training in Gerontology, working paper, committee print, November 1971.**

Making Services for the Elderly Work: Some Lessons From the British Experience, committee print report, November 1971.**

1971 White House Conference on Aging, a report to the delegates from the conference sections and special concerns sessions, December 1971.**

Home Health Services in the United States, committee print report, April 1972.**

Proposals To Eliminate Legal Barriers Affecting Elderly Mexican-Americans, working paper, committee print, May 1972.**

Cancelled Careers: The Impact of Reduction-in-Force Policies on Middle-Aged Federal Employees, committee print report, May 1972.**

Action on Aging Legislation in 92d Congress, committee print, October 1972.**

Legislative History of the Older Americans Comprehensive Services Amendments of 1972, joint committee print, prepared by the Subcommittee on Aging of the Committee on Labor and Public Welfare and the Special Committee on Aging, December 1972.**

The Rise and Threatened Fall of Service Programs for the Elderly, report by the Subcommittee on Federal, State, and Community Services, Report No. 93-94, March 28, 1973.**

Housing for the Elderly: A Status Report, working paper, committee print, April 1973.**

Older Americans Comprehensive Services Amendments of 1973, committee print, June 1973.**

Home Health Services in the United States: A Working Paper on Current Status, committee print, July 1973.**

Economics of Aging: Toward a Full Share in Abundance, index to hearings and reports, committee print, July 1973.**

Research on Aging Act, 1973, Report No. 93-299, committee print, July 1973.**

Post-White House Conference on Aging Reports, 1973, joint committee print, prepared by the Subcommittee on Aging of the Committee on Labor and Public Welfare and the Special Committee on Aging, September 1973.**

Improving the Age Discrimination Law, working paper, committee print, September 1973.**

The Proposed Fiscal 1975 Budget: What It Means for Older Americans, committee print, February 1974.**

Protecting Older Americans Against Overpayment of Income Taxes: A Checklist of Itemized Deductions, committee print, February 1974.**

Developments and Trends in State Programs and Services for the Elderly, committee print report, November 1974.**

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Nursing Home Care in the United States: Failure in Public Policy, reports by the Subcommittee on Long-Term Care:
  Introductory Report, Report No. 93–1420, November 1974.**
  Supporting Paper No. 1, "The Litany of Nursing Home Abuses and an Examination of the Roots of Controversy," committee print report, December 1974 (Cat. No. Y4.Ag4:N93/5/No. 1)—$1.20.*
  Supporting Paper No. 2, "Drugs in Nursing Homes: Misuse, High Costs, and Kickbacks," committee print report, January 1975.**
  Supporting Paper No. 3, "Doctors in Nursing Homes: The Shunned Responsibility," committee print report, February 1975 (Cat. No. Y4.Ag4:N93/5/No. 3)—95¢.*
  Supporting Paper No. 4, "Nurses in Nursing Homes: The Heavy Burden (the Reliance on Untrained and Unlicensed Personnel)," committee print report, April 1975.**
  Supporting Paper No. 5, "The Continuing Chronicle of Nursing Home Fires," committee print report, August 1975 (Cat. No. Y4.Ag4:N93/5/No. 5)—$2.10.*
  Supporting Paper No. 6, "What Can Be Done in Nursing Homes: Positive Aspects in Long-Term Care," committee print report, September 1975 (Cat. No. Y4.Ag4:N93/5/No. 6)—$1.70.*
  Supporting Paper No. 7, "The Role of Nursing Homes in Caring for Discharged Mental Patients (and the Birth of a For-Profit Boarding Home Industry)," committee print report, March 1976 (Cat. No. Y4.Ag4:N93/5/No. 7)—$1.60.*

Private Health Insurance Supplementary to Medicare, working paper, committee print, December 1974.**

Protecting Older Americans Against Overpayment of Income Taxes, committee print, January 1975.**

Senior Opportunities and Services (Directory of Programs), committee print, February 1975.**

Action on Aging Legislation in 93d Congress, committee print, February 1975.**

The Proposed Fiscal 1976 Budget: What It Means for Older Americans, committee print, February 1975.**

Future Directions in Social Security: An Interim Report, committee print, March 1975.**

Women and Social Security: Adapting to a New Era, working paper, committee print, October 1975.**

Congregate Housing for Older Adults, Report No. 94–478, November 1975.**

Protecting Older Americans Against Overpayment of Income Taxes, committee print, January 1976.**

The Proposed Fiscal 1977 Budget: What It Means for Older Americans, committee print, February 1976.**

Fraud and Abuse Among Clinical Laboratories, Report No. 94–944, June 15, 1976.**

Recession's Continuing Victim: The Older Worker, committee print, July 1976.**

Fraud and Abuse Among Practitioners Participating in the Medicaid Program, committee print, August 1976 (Cat. No. Y4.Ag4: M46/6)—$2.65.*

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Adult Day Facilities for Treatment, Health Care, and Related Services, committee print, September 1976 (Cat. No. Y4.Ag4:T71)—$2.40.*

Termination of Social Security Coverage: The Impact on State and Local Government Employees, committee print, September 1976.**

Witness Index and Research Reference, committee print, November 1976.**

Action on Aging Legislation in 94th Congress, committee print, November 1976.**

Protecting Older Americans Against Overpayment of Income Taxes, committee print, December 1976.**

The Proposed Fiscal 1978 Budget: What It Means for Older Americans, committee print, March 1977.**

Kickbacks Among Medicaid Providers, Report No. 95-320, June 1977.**

Protective Services for the Elderly, committee print, July 1977 (Cat. No. Y4.Ag4:Se6/10)—$2.20.*

The Next Steps in Combating Age Discrimination in Employment: With Special Reference to Mandatory Retirement Policy, committee print, August 1977 (Cat. No. Y4.Ag4:R31/7)—$1.20.*

Protecting Older Americans Against Overpayment of Income Taxes, committee print, December 1977.**

The Proposed Fiscal 1979 Budget: What It Means for Older Americans, committee print, February 1978.**

Paperwork and the Older Americans Act: Problems of Implementing Accountability, committee print, June 1978 (Cat. No. Y4.Ag4:P19)—$2.30.*

Single Room Occupancy: A Need for National Concern, committee print, June 1978 (Cat. No. Y4.Ag4:Si6)—$1.90.*

Protecting Older Americans Against Overpayment of Income Taxes, committee print, December 1978.**

Action on Aging Legislation in the 95th Congress, committee print, December 1978 (Cat. No. Y4.Ag4:L52/3/978)—$1.10.

The Proposed Fiscal 1980 Budget: What It Means for Older Americans, committee print, February 1979 (Cat. No. Y4.Ag4:B85/980)—$1.10.

Energy Assistance Programs and Pricing Policies in the 50 States To Benefit Elderly, Disabled, or Low-Income Households, committee print, October 1979 (Cat. No. Y4.Ag4:En2/2)—$5.50.

Witness Index and Research Reference, committee print, November 1979.***

Protecting Older Americans Against Overpayment of Income Taxes, committee print, January 1980.**

The Proposed Fiscal 1981 Budget: What It Means for Older Americans, committee print, February 1980 (Cat. No. Y4.Ag4:B85/981)—$1.50.*

Emerging Options for Work and Retirement Policy (An Analysis of Major Income and Employment Issues With an Agenda for Research Priorities), committee print, June 1980 (Cat. No. Y4.Ag4:W89)—$4.

Summary of Recommendations and Surveys on Social Security and Pension Policies, committee print, October 1980 (Cat. No. Y4.Ag4:So1/6)—$3.25.

NOTE: When requesting or ordering publications in this listing, it is important that you first read the instructions on page 1.

Innovative Developments in Aging: State Level, committee print, October 1980 (Cat. No. Y4.Ag4:Ag4/7)—$6.

State Offices on Aging: History and Statutory Authority, committee print, December 1980 (Cat. No. Y4.Ag4:Ag4/8)—$2.25.

Protecting Older Americans Against Overpayment of Income Taxes, committee print, December 1980 (Cat. No. Y4.Ag4:In2/4/980)—$1.50.

State and Local Government Terminations of Social Security Coverage, committee print, December 1980 (Cat. No. Y4.Ag4:So1/7)—$3.75.

The Proposed Fiscal Year 1982 Budget: What It Means for Older Americans, committee print, April 1981.***

Action on Aging Legislation in the 96th Congress, committee print, April 1981 (Cat. No. Y4.Ag4:L52/3/981)—$2.

Energy and the Aged, committee print, August 1981, $2.75.

1981 Federal Income Tax Legislation: How It Affects Older Americans and Those Planning Retirement, committee print, August 1981, $2.

Omnibus Budget Reconciliation Act of 1981, Public Law 97-35 (Selected Provisions Affecting the Elderly), committee print, September 1981, $2.25.

Toward a National Older Worker Policy, committee print, September 1981. $3.75.

Crime and the Elderly—What You Can Do, committee print, September 1981.**

Social Security in Europe: The Impact on an Aging Population, committee print, December 1981.

Background Materials Relating to Office of Inspector General, Department of Health and Human Services Efforts To Combat Fraud, Waste, and Abuse, committee print, December 1981.

Protecting Older Americans Against Overpayment of Income Taxes, committee print, December 1981.

A Guide to Individual Retirement Accounts (IRA's), committee print, December 1981.

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HEARINGS

Retirement Income of the Aging:**
  Part 1. Washington, D.C., July 12–13, 1961.
  Part 2. St. Petersburg, Fla., November 6, 1961.
  Part 3. Port Charlotte, Fla., November 7, 1961.
  Part 4. Sarasota, Fla., November 8, 1961.
  Part 5. Springfield, Mass., November 29, 1961.
  Part 6. St. Joseph, Mo., December 11, 1961.
  Part 7. Hannibal, Mo., December 13, 1961.
  Part 8. Cape Girardeau, Mo., December 15, 1961.
  Part 9. Daytona Beach, Fla., February 14, 1962.
  Part 10. Fort Lauderdale, Fla., February 15, 1962.
Housing Problems of the Elderly:**
  Part 1. Washington, D.C., August 22–23, 1961.
  Part 2. Newark, N.J., October 16, 1961.
  Part 3. Philadelphia, Pa., October 18, 1961.
  Part 4. Scranton, Pa., November 14, 1961.
  Part 5. St. Louis, Mo., December 8, 1961.
Problems of the Aging (Federal-State activities):**
  Part 1. Washington, D.C., August 23–24, 1961.
  Part 2. Trenton, N.J., October 23, 1961.
  Part 3. Los Angeles, Calif., October 24, 1961.
  Part 4. Las Vegas, Nev., October 25, 1961.
  Part 5. Eugene, Oreg., November 8, 1961.
  Part 6. Pocatello, Idaho, November 13, 1961.
  Part 7. Boise, Idaho, November 15, 1961.
  Part 8. Spokane, Wash., November 17, 1961.
  Part 9. Honolulu, Hawaii, November 27, 1961.
  Part 10. Lihue, Hawaii, November 29, 1961.
  Part 11. Wailuku, Hawaii, November 30, 1961.
  Part 12. Hilo, Hawaii, December 1, 1961.
  Part 13. Kansas City, Mo., December 6, 1961.
Nursing Homes:**
  Part 1. Portland, Oreg., November 6, 1961.
  Part 2. Walla Walla, Wash., November 10, 1961.
  Part 3. Hartford, Conn., November 20, 1961.
  Part 4. Boston, Mass., December 1, 1961.
  Part 5. Minneapolis, Minn., December 4, 1961.
  Part 6. Springfield, Mo., December 12, 1961.
Relocation of Elderly People:**
  Part 1. Washington, D.C., October 22–23, 1962.
  Part 2. Newark, N.J., October 26, 1962.
  Part 3. Camden, N.J., October 29, 1962.
  Part 4. Portland, Oreg., December 3, 1962.
  Part 5. Los Angeles, Calif., December 5, 1962.
  Part 6. San Francisco, Calif., December 7, 1962.

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Frauds and Quackery Affecting the Older Citizen:**
  Part 1. Washington, D.C., January 15, 1963.
  Part 2. Washington, D.C., January 16, 1963.
  Part 3. Washington, D.C., January 17, 1963.
Housing Problems of the Elderly:**
  Part 1. Washington, D.C., December 11, 1963.
  Part 2. Los Angeles, Calif., January 9, 1964.
  Part 3. San Francisco, Calif., January 11, 1964.
Long-Term Institutional Care for the Aged (Federal programs), Washington, D.C., December 17–18, 1963.**
Increasing Employment Opportunities for the Elderly:**
  Part 1. Washington, D.C., December 19, 1963.
  Part 2. Los Angeles, Calif., January 10, 1964.
  Part 3. San Francisco, Calif., January 13, 1964.
Health Frauds and Quackery:**
  Part 1 San Francisco, Calif., January 13, 1964.
  Part 2. Washington, D.C., March 9, 1964.
  Part 3. Washington, D.C., March 10, 1964.
  Part 4A. Washington, D.C., April 6, 1964 (eye care).
  Part 4B. Washington, D.C., April 6, 1964 (eye care).
Services for Senior Citizens:**
  Part 1. Washington, D.C., January 16, 1964.
  Part 2. Boston, Mass., January 20, 1964.
  Part 3. Providence, R.I., January 21, 1964.
  Part 4. Saginaw, Mich , March 2, 1964
Blue Cross and Other Private Health Insurance for the Elderly:**
  Part 1. Washington, D.C., April 27, 1964.
  Part 2. Washington, D.C., April 28, 1964.
  Part 3. Washington, D.C., April 29, 1964.
  Part 4A. Appendix.
  Part 4B. Appendix.
Deceptive or Misleading Methods in Health Insurance Sales, Washington, D.C., May 4, 1964.**
Nursing Homes and Related Long-Term Care Services:**
  Part 1. Washington, D.C., May 5, 1964.
  Part 2. Washington D.C., May 6, 1964.
  Part 3. Washington, D.C., May 7, 1964.
Interstate Mail Order Land Sales:**
  Part 1. Washington, D.C., May 18, 1964.
  Part 2. Washington, D.C., May 19, 1964.
  Part 3. Washington, D.C., May 20, 1964.
Preneed Burial Service, Washington, D.C., May 19, 1964.**
Conditions and Problems in the Nation's Nursing Homes:**
  Part 1. Indianapolis, Ind., February 11, 1965.
  Part 2. Cleveland, Ohio, February 15, 1965.
  Part 3. Los Angeles, Calif., February 17, 1965.
  Part 4. Denver, Colo., February 23, 1965.
  Part 5. New York, N.Y., August 2–3, 1965.
  Part 6. Boston, Mass., August 9, 1965.
  Part 7. Portland, Maine, August 13, 1965.

NOTE: When requesting or ordering publications in this listing, it is important that you first read the instructions on page 1.

Extending Private Pension Coverage:**
  Part 1. Washington, D.C., March 4, 1965.
  Part 2. Washington, D.C., March 5 and 10, 1965.
The War on Poverty As It Affects Older Americans:**
  Part 1. Washington, D.C., June 16–17, 1965.
  Part 2. Newark, N.J., July 10, 1965.
  Part 3. Washington, D.C., January 19–20, 1966.
Services to the Elderly on Public Assistance:**
  Part 1. Washington, D.C., August 18–19, 1965.
  Part 2. Appendix.
Needs for Services Revealed by Operation Medicare Alert, Washington, D.C., June 2, 1966.**
Tax Consequences of Contributions to Needy Older Relatives, Washington, D.C., June 15, 1966.**
Detection and Prevention of Chronic Disease Utilizing Multiphasic Health Screening Techniques, Washington, D.C., September 20, 21, and 22, 1966.**
Consumer Interests of the Elderly:**
  Part 1. Washington, D.C., January 17–18, 1967.
  Part 2. Tampa, Fla., February 2–3, 1967.
Reduction of Retirement Benefits Due to Social Security Increases, Washington, D.C., April 24–25, 1967.**
Retirement and the Individual:**
  Part 1. Washington, D.C., June 7–8, 1967.
  Part 2. Ann Arbor, Mich., July 26, 1967.
Costs and Delivery of Health Services to Older Americans:**
  Part 1. Washington, D.C., June 22–23, 1967.
  Part 2. New York, N.Y., October 19, 1967.
  Part 3. Los Angeles, Calif., October 16, 1968.
Rent Supplement Assistance to the Elderly, Washington, D.C., July 11, 1967.**
Long-Range Program and Research Needs in Aging and Related Fields, Washington, D.C., December 5–6, 1967.**
Hearing Loss, Hearing Aids, and the Elderly, Washington, D.C., July 18–19, 1968.**
Usefulness of the Model Cities Program to the Elderly:**
  Part 1. Washington, D.C., July 23, 1968.
  Part 2. Seattle, Wash., October 14, 1968.
  Part 3. Ogden, Utah, October 24, 1968.
  Part 4. Syracuse, N.Y., December 9, 1968.
  Part 5. Atlanta, Ga., December 11, 1968.
  Part 6. Boston, Mass., July 11, 1969.
  Part 7. Washington, D.C., October 14–15, 1969.
Adequacy of Services for Older Workers, Washington, D.C., July 24–25, and 29, 1968.**
Availability and Usefulness of Federal Programs and Services to Elderly Mexican-Americans:**
  Part 1. Los Angeles, Calif., December 17, 1968.
  Part 2. El Paso, Tex., December 18, 1968.
  Part 3. San Antonio, Tex., December 19, 1968.
  Part 4. Washington, D.C., January 14–15, 1969.
  Part 5. Washington, D.C., November 20–21, 1969.

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Economics of Aging: Toward a Full Share in Abundance:**
  Part 1. Washington, D.C., April 29–30, 1969.
  Part 2. Ann Arbor, Mich., consumer aspects, June 9, 1969.
  Part 3. Washington, D.C., health aspects, July 17–18, 1969.
  Part 4. Washington, D.C., homeownership aspects, July 31 and August 1, 1969.
  Part 5. Paramus, N.J., central suburban area, August 14, 1969.
  Part 6. Cape May, N.J., retirement community, August 15, 1969.
  Part 7. Washington, D.C., international aspects, August 25, 1969.
  Part 8. Washington, D.C., national organizations, October 29, 1969.
  Part 9. Washington, D.C., employment aspects, December 18–19, 1969.
  Part 10A. Washington, D.C., pension aspects, February 17, 1970.
  Part 10B. Washington, D.C., pension aspects, February 18, 1970.
  Part 11. Washington, D.C., concluding hearing, May 4, 5, and 6, 1970.
The Federal Role in Encouraging Preretirement Counseling and New Work Lifetime Patterns, Washington, D.C., July 25, 1969.**
Trends in Long-Term Care (Cat. No. Y4.Ag4:C18/Pts.):
  Part 1. Washington, D.C., July 30, 1969.**
  Part 2. St. Petersburg, Fla., January 9, 1970.**
  Part 3. Hartford, Conn., January 15, 1970.**
  Part 4. Washington, D.C. (Marietta, Ohio, fire), February 9, 1970.**
  Part 5. Washington, D.C. (Marietta, Ohio, fire), February 10, 1970.**
  Part 6. San Francisco, Calif., February 12, 1970.**
  Part 7. Salt Lake City, Utah, February 13, 1970.**
  Part 8. Washington, D.C., May 7, 1970.**
  Part 9. Washington, D.C. (Salmonella), August 19, 1970.**
  Part 10. Washington, D.C. (Salmonella), December 14, 1970.**
  Part 11. Washington, D.C., December 17, 1970.**
  Part 12. Chicago, Ill., April 2, 1971.**
  Part 13. Chicago, Ill., April 3, 1971.**
  Part 14. Washington, D.C., June 15, 1971.**
  Part 15. Chicago, Ill., September 14, 1971.**
  Part 16. Washington, D.C., September 29, 1971.**
  Part 17. Washington, D.C., October 14, 1971.**
  Part 18. Washington, D.C., October 28, 1971.**
  Part 19A. Minneapolis-St. Paul, Minn., November 29, 1971.**
  Part 19B. Minneapolis-St. Paul, Minn., November 29, 1971.**
  Part 20. Washington, D.C., August 10, 1972.**
  Part 21. Washington, D.C., October 10, 1973—$1.85.*
  Part 22. Washington, D.C., October 11, 1973.**

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Trends in Long-Term Care—Continued
  - Part 23. New York, N.Y., January 21, 1975—$2.05.*
  - Part 24. New York, N.Y., February 4, 1975—$2.40.*
  - Part 25. Washington, D.C., February 19, 1975.***
  - Part 26. Washington, D.C., December 9, 1975—$2.10.*
  - Part 27. New York, N.Y., March 19, 1976—$1.20.*

Older Americans in Rural Areas:**
  - Part 1. Des Moines, Iowa, September 8, 1969.
  - Part 2. Majestic-Freeburn, Ky., September 12, 1969.
  - Part 3. Fleming, Ky., September 12, 1969.
  - Part 4. New Albany, Ind., September 16, 1969.
  - Part 5. Greenwood, Miss., October 9, 1969.
  - Part 6. Little Rock, Ark., October 10, 1969.
  - Part 7. Emmett, Idaho, February 24, 1970.
  - Part 8. Boise, Idaho, February 24, 1970.
  - Part 9. Washington, D.C., May 26, 1970.
  - Part 10. Washington, D.C., June 2, 1970.
  - Part 11. Dogbone-Charleston, W. Va., October 27, 1970.
  - Part 12. Wallace-Clarksburg, W. Va., October 28, 1970.

Income Tax Overpayments by the Elderly, Washington, D.C., April 15, 1970.**

Sources of Community Support for Federal Programs Serving Older Americans:**
  - Part 1. Ocean Grove, N.J., April 18, 1970.
  - Part 2. Washington, D.C., June 8–9, 1970.

Legal Problems Affecting Older Americans:**
  - St. Louis, Mo., August 11, 1970.
  - Boston, Mass., April 30, 1971.

Evaluation of Administration on Aging and Conduct of White House Conference on Aging:**
  - Part 1. Washington, D.C., March 25, 1971.
  - Part 2. Washington, D.C., March 29, 1971.
  - Part 3. Washington, D.C., March 30, 1971.
  - Part 4. Washington, D.C., March 31, 1971.
  - Part 5. Washington, D.C., April 27, 1971.
  - Part 6. Orlando, Fla., May 10, 1971.
  - Part 7. Des Moines, Iowa, May 13, 1971.
  - Part 8. Boise, Idaho, May 28, 1971.
  - Part 9. Casper, Wyo., August 13, 1971.
  - Part 10. Washington, D.C., February 3, 1972.

Cutbacks in Medicare and Medicaid Coverage:**
  - Part 1. Los Angeles, Calif., May 10, 1971.
  - Part 2. Woonsocket, R.I., June 14, 1971.
  - Part 3. Providence, R.I., September 20, 1971.

Unemployment Among Older Workers:**
  - Part 1. South Bend, Ind., June 4, 1971.
  - Part 2. Roanoke, Ala., August 10, 1971.
  - Part 3. Miami, Fla., August 11, 1971.
  - Part 4. Pocatello, Idaho, August 27, 1971.

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Adequacy of Federal Response to Housing Needs of Older Americans:**
  Part 1. Washington, D.C., August 2, 1971.
  Part 2. Washington, D.C., August 3, 1971.
  Part 3. Washington, D.C., August 4, 1971.
  Part 4. Washington, D.C., October 28, 1971.
  Part 5. Washington, D.C., October 29, 1971.
  Part 6. Washington, D.C., July 31, 1972.
  Part 7. Washington, D.C., August 1, 1972.
  Part 8. Washington, D.C., August 2, 1972.
  Part 9. Boston, Mass., October 2, 1972.
  Part 10. Trenton N.J., January 17, 1974.
  Part 11. Atlantic City, N.J., January 18, 1974.
  Part 12. East Orange, N.J., January 19, 1974.
  Part 13. Washington, D.C., October 7, 1975.
  Part 14. Washington, D.C., October 8, 1975.
Flammable Fabrics and Other Fire Hazards to Older Americans, Washington, D.C., October 12, 1971.**
A Barrier-Free Environment for the Elderly and the Handicapped:**
  Part 1. Washington, D.C., October 18, 1971.
  Part 2. Washington, D.C., October 19, 1971.
  Part 3. Washington, D.C., October 20, 1971.
Death With Dignity: An Inquiry Into Related Public Issues:**
  Part 1. Washington, D.C., August 7, 1972.
  Part 2. Washington, D.C., August 8, 1972.
  Part 3. Washington, D.C., August 9, 1972.
Future Directions in Social Security:**
  Part 1. Washington, D.C., January 15, 1973.
  Part 2. Washington, D.C., January 22, 1973.
  Part 3. Washington, D.C., January 23, 1973.
  Part 4. Washington, D.C., July 25, 1973.
  Part 5. Washington, D.C., July 26, 1973.
  Part 6. Twin Falls, Idaho, May 16, 1974.
  Part 7. Washington, D.C., July 15, 1974.
  Part 8. Washington, D.C., July 16, 1974.
  Part 9. Washington, D.C., March 18, 1975.
  Part 10. Washington, D.C., March 19, 1975.
  Part 11. Washington, D.C., March 20, 1975.
  Part 12. Washington, D.C., May 1, 1975.
  Part 13. San Francisco, Calif., May 15, 1975.
  Part 14. Los Angeles, Calif., May 16, 1975.
  Part 15. Des Moines, Iowa, May 19, 1975.
  Part 16. Newark, N.J., June 30, 1975.
  Part 17. Toms River, N.J., September 8, 1975.
  Part 18. Washington, D.C., October 22, 1975.
  Part 19. Washington, D.C., October 23, 1975.
  Part 20. Portland, Oreg., November 24, 1975.
  Part 21. Portland, Oreg., November 25, 1975.
  Part 22. Nashville, Tenn., December 6, 1975.
  Part 23. Boston, Mass., December 19, 1975.
  Part 24. Providence, R.I., January 26, 1976.
  Part 25. Memphis, Tenn., February 16, 1976.

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Fire Safety in Highrise Buildings for the Elderly:**
- Part 1. Washington, D.C., February 27, 1973.
- Part 2. Washington, D.C., February 28, 1973.

Barriers to Health Care for Older Americans:**
- Part 1. Washington, D.C., March 5, 1973.
- Part 2. Washington, D.C., March 6, 1973.
- Part 3. Livermore Falls, Maine, April 23, 1973.
- Part 4. Springfield, Ill., May 16, 1973.
- Part 5. Washington, D.C., July 11, 1973.
- Part 6. Washington, D.C., July 12, 1973.
- Part 7. Coeur d'Alene, Idaho, August 4, 1973.
- Part 8. Washington, D.C., March 12, 1974.
- Part 9. Washington, D.C., March 13, 1974.
- Part 10. Price, Utah, April 20, 1974.
- Part 11. Albuquerque, N. Mex., May 25, 1974.
- Part 12. Santa Fe, N. Mex., May 25, 1974.
- Part 13. Washington, D.C., June 25, 1974.
- Part 14. Washington, D.C., June 26, 1974.
- Part 15. Washington, D.C., July 9, 1974.
- Part 16. Washington, D.C., July 17, 1974.

Training Needs in Gerontology: **
- Part 1. Washington, D.C., June 19, 1973.
- Part 2. Washington, D.C., June 21, 1973.
- Part 3. Washington, D.C., March 7, 1975.

Hearing Aids and the Older American:**
- Part 1. Washington, D.C., September 10, 1973.
- Part 2. Washington, D.C., September 11, 1973.

Transportation and the Elderly: Problems and Progress (Cat. No. Y4.Ag4:T68/Pts.):
- Part 1. Washington, D.C., February 25, 1974.**
- Part 2. Washington, D.C., February 27, 1974.**
- Part 3. Washington, D.C., February 28, 1974.**
- Part 4. Washington, D.C., April 9, 1974.**
- Part 5. Washington, D.C., July 29, 1975.**
- Part 6. Washington, D.C., July 12, 1977—$2.

Improving Legal Representation for Older Americans (Cat. No. Y4.Ag4:L52/4/Pts.):
- Part 1. Los Angeles, Calif., June 14, 1974.**
- Part 2. Boston, Mass., August 30, 1976.**
- Part 3. Washington, D.C., September 28, 1976—$1.60.*
- Part 4. Washington, D.C., September 29, 1976—$2.20.*

Establishing a National Institute on Aging, Washington, D.C., August 1, 1974.**

The Impact of Rising Energy Costs on Older Americans (Cat. No. Y4.Ag4:En/Pts.):
- Part 1. Washington, D.C., September 24, 1974—90¢.*
- Part 2. Washington, D.C., September 25, 1974—75¢.*
- Part 3. Washington, D.C., November 7, 1975.**
- Part 4. Washington, D.C., April 5, 1977—$1.80.*
- Part 5. Washington, D.C., April 7, 1977—$2.10.*
- Part 6. Washington, D.C., June 28, 1977.**
- Part 7. Missoula, Mont., February 14, 1979—$3.25.

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The Older Americans Act and the Rural Elderly, Washington, D.C., April 28, 1975.**

Examination of Proposed Section 202 Housing Regulations:**
- Part 1. Washington, D.C., June 6, 1975.
- Part 2. Washington, D.C., June 26, 1975.

The Recession and the Older Worker, Chicago, Ill., August 14, 1975.**

Medicare and Medicaid Frauds (Cat. No. Y4.Ag4:M46/5/Pts.):
- Part 1. Washington, D.C., September 26, 1975—$2.10.*
- Part 2. Washington, D.C., November 13, 1975—85¢.*
- Part 3. Washington, D.C., December 5, 1975—$1.40.*
- Part 4. Washington, D.C., February 16, 1976—$1.30.*
- Part 5. Washington, D.C., August 30, 1976—$2.10.*
- Part 6. Washington, D.C., August 31, 1976—$2.10.*
- Part 7. Washington, D.C., November 17, 1976—$1.70.*
- Part 8. Washington, D.C., March 8, 1977—$2.40.*
- Part 9. Washington, D.C., March 9, 1977—$3.25.*

Mental Health and the Elderly, Washington, D.C., September 29, 1975 (Cat. No. Y4.Ag4:M52/3)—$2.10.*

Proprietary Home Health Care (joint hearing with the House Select Committee on Aging), Washington, D.C., October 28, 1975.**

Proposed USDA Food Stamp Cutbacks for the Elderly, Washington, D.C., November 3, 1975.**

The Tragedy of Nursing Home Fires: The Need for National Commitment for Safety (joint hearing with House Select Committee on Aging), Washington, D.C., June 3, 1976.**

The Nation's Rural Elderly (Cat. No. Y4.Ag4:R88/3/Pts.):
- Part 1. Winterset, Iowa, August 16, 1976—$1.90.*
- Part 2. Ottumwa, Iowa, August 16, 1976.**
- Part 3. Gretna, Nebr., August 17, 1976—$1.60.*
- Part 4. Ida Grove, Iowa, August 17, 1976—$1.60.*
- Part 5. Sioux Falls, S. Dak., August 18, 1976—$2.10.*
- Part 6. Rockford, Iowa, August 18, 1976—$1.60.*
- Part 7. Denver, Colo., March 23, 1977—$3.75.*
- Part 8. Flagstaff, Ariz., November 5, 1977.**
- Part 9. Tucson, Ariz., November 7, 1977.**
- Part 10. Terre Haute, Ind., November 11, 1977—$2.10.*
- Part 11. Phoenix, Ariz., November 12, 1977.**
- Part 12. Roswell, N. Mex., November 18, 1977—$2.20.*
- Part 13. Taos, N. Mex., November 19, 1977—$2.20.*
- Part 14. Albuquerque, N. Mex., November 21, 1977—$2.75.*
- Part 15. Pensacola, Fla., November 21, 1977—$2.*
- Part 16. Gainesville, Fla., November 22, 1977—$2.10.*
- Part 17. Champaign, Ill., December 13, 1977—$2.20.*

Medicine and Aging: An Assessment of Opportunities and Neglect, New York, N.Y., October 13, 1976 (Cat. No. Y4.Ag4:M46/7)—$2.10.*

Effectiveness of Food Stamps for Older Americans (Cat. No. Y4.Ag4:F73/3/Pts.):
- Part 1. Washington, D.C., April 18, 1977—$1.80.*
- Part 2. Washington, D.C., April 19, 1977—$1.50.*

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Health Care for Older Americans: The "Alternatives" Issue: **
  Part 1. Washington, D.C., May 16, 1977.
  Part 2. Washington, D.C., May 17, 1977.
  Part 3. Washington, D.C., June 15, 1977.
  Part 4. Cleveland, Ohio, July 6, 1977.
  Part 5. Washington, D.C., September 21, 1977.
  Part 6. Holyoke, Mass., October 12, 1977.
  Part 7. Tallahassee, Fla., November 23, 1977.
  Part 8. Washington, D.C., April 17, 1978.
Senior Centers and the Older Americans Act, Washington, D.C., October 18, 1977.**
The Graying of Nations: Implications, Washington, D.C., November 10, 1977.**
Tax Forms and Tax Equity for Older Americans, Washington, D.C., February 24, 1978.**
Medi-Gap: Private Health Insurance Supplements to Medicare (Cat. No. Y4.Ag4:M46/8/Pts.):
  Part 1. Washington, D.C., May 16, 1978—$3.25.*
  Part 2. Washington, D.C., June 29, 1978—$2.10.*
Retirement, Work, and Lifelong Learning (Cat. No. Y4.Ag4:R31/8/Pts.):
  Part 1. Washington, D.C., July 17, 1978—$2.40.*
  Part 2. Washington, D.C., July 18, 1978—$2.10.*
  Part 3. Washington, D.C., July 19, 1978—$1.70.*
  Part 4. Washington, D.C., September 8, 1978.—$2.75.*
Medicaid Anti-Fraud Programs: The Role of State Fraud Control Units, Washington, D.C., July 25, 1978.**
Vision Impairment Among Older Americans, Washington, D.C., August 3, 1978.**
The Federal-State Effort in Long-Term Care for Older Americans: Nursing Homes and "Alternatives," Chicago, Ill., August 30, 1978 (Cat. No. Y4.Ag4:N93/6)—$3.*
Condominiums and the Older Purchaser (Cat. No. Y4.Ag4:C75/Pts.):
  Part 1. Hallandale, Fla., November 28, 1978—$3.*
  Part 2. West Palm Beach, Fla., November 29, 1978—$4.*
Older Americans in the Nation's Neighborhoods:**
  Part 1. Washington, D.C., December 1, 1978.
  Part 2. Oakland, Calif., December 4, 1978.
Commodities and Nutrition Program for the Elderly, Missoula, Mont., February 14, 1979.***
The Effect of Food Stamp Cutbacks on Older Americans, Washington, D.C., April 11, 1979 (Cat. No. Y4.Ag4:F73/4)—$3.
Home Care Services for Older Americans: Planning for the Future, Washington, D.C., May 7 and 21, 1979 (Cat. No. Y4.Ag4:H79)—$4.25.
Federal Paperwork Burdens, With Emphasis on Medicare (joint hearing with Subcommittee on Federal Spending Practices and Open Government of the Senate Committee on Governmental Affairs), St. Petersburg, Fla., August 6, 1979 (Cat. No. Y4.Ag4:P19/2)—$4.25.

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- Abuse of the Medicare Home Health Program, Miami, Fla., August 28, 1979 (Cat. No. Y4.Ag4:M46/10)—$3.25.
- Occupational Health Hazards of Older Workers in New Mexico, Grants, N. Mex., August 30, 1979.***
- Energy Assistance for the Elderly:
  - Part 1. Akron, Ohio, August 30, 1979.***
  - Part 2. Washington, D.C., September 13, 1979.***
  - Part 3. Pennsauken, N.J., May 23, 1980.***
  - Part 4. Washington, D.C., July 25, 1980 (joint hearing with Subcommittee on Aging of the Senate Committee on Labor and Human Resources).***
- Regulations To Implement the Comprehensive Older Americans Act Amendments of 1978:***
  - Part 1. Washington, D.C., October 18, 1979 (joint hearing with Subcommittee on Aging of the Senate Committee on Labor and Human Resources).
  - Part 2. Washington, D.C., March 24, 1980.
- Medicare Reimbursement for Elderly Participation in Health Maintenance Organizations and Health Benefit Plans, Philadelphia, Pa., October 29, 1979 (Cat. No. Y4.Ag4:M46/11)—$3.50.
- Energy and the Aged: A Challenge to the Quality of Life in a Time of Declining Energy Availability, Washington, D.C., November 26, 1979.***
- Adapting Social Security to a Changing Work Force, Washington, D.C., November 28, 1979 (Cat. No. Y4.Ag4:SO1/5)—$3.75.
- Aging and Mental Health: Overcoming Barriers to Service:
  - Part 1. Little Rock, Ark., April 4, 1980.***
  - Part 2. Washington, D.C., May 22, 1980.***
- Rural Elderly—The Isolated Population: A Look at Services in the 80's, Las Vegas, N. Mex., April 11, 1980.***
- Work After 65: Options for the 80's (Cat. No. Y4.Ag4:W89/2/pts.):
  - Part 1. Washington, D.C., April 24, 1980—$3.50.
  - Part 2. Washington, D.C., May 13, 1980—$3.75.
  - Part 3. Orlando, Fla., July 9, 1980—$3.50.
- How Old Is "Old"? The Effects of Aging on Learning and Working, Washington, D.C., April 30, 1980 (Cat. No. Y4.Ag4:L47)—$3.50.
- Minority Elderly: Economics and Housing in the 80's, Philadelphia, Pa., May 7, 1980.***
- Maine's Rural Elderly: Independence Without Isolation, Bangor, Maine, June 9, 1980.**
- Elder Abuse, Washington, D.C., June 11, 1980 (joint hearing with House Select Committee on Aging) (Cat. No. Y4.Ag4:El2)—$4.50.
- Crime and the Elderly: What Your Community Can Do, Albuquerque. N. Mex., June 23, 1980 (Cat. No. Y4.Ag4:C86)—$4.25.
- Possible Abuse and Maladministration of Home Rehabilitation Programs for the Elderly, Santa Fe, N. Mex., October 8, 1980, and Washington, D.C., December 19, 1980.***
- Energy Equity and the Elderly in the 80's:
  - Part 1. Boston, Mass., October 24, 1980.***
  - Part 2. St. Petersburg, Fla., October 28, 1980.***

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Retirement Benefits: Are They Fair and Are They Enough?, Fort Leavenworth, Kans., November 8, 1980.***

Social Security: What Changes Are Necessary:

  Part 1. Washington, D.C., November 21, 1980.***

  Part 2. Washington, D.C., December 2, 1980.***

  Part 3. Washington, D.C., December 3, 1980.***

  Part 4. Washington, D.C., December 4, 1980.***

Home Health Care: Future Policy (joint hearing with Senate Committee on Labor and Human Resources), Princeton, N.J., November 23, 1980.***

Impact of Federal Estate Tax Policies on Rural Women, Washington, D.C., February 4, 1981.***

Impact of Federal Budget Proposals on Older Americans:

  Part 1. Washington, D.C., March 20 1981.***

  Part 2. Washington, D.C., March 27, 1981.***

  Part 3. Philadelphia, Pa., April 10, 1981.***

Energy and the Aged, Washington, D.C., April 9, 1981.***

Older Americans Act, Washington, D.C., April 27, 1981.***

Social Security Reform: Effect on Work and Income After Age 65, Rogers, Ark., May 18, 1981.***

Social Security Oversight:

  Part 1 (Short-Term Financing Issues). Washington, D.C., June 16, 1981.***

  Part 2 (Early Retirement). Washington, D.C., June 18, 1981.***

  Part 3 (Cost-of-Living Adjustments). Washington, D.C., June 24, 1981.***

Medicare Reimbursement to Competitive Medical Plans, Washington, D.C., July 29, 1981.***

Rural Access to Elderly Programs, Sioux Falls, S. Dak., August 3, 1981.***

Frauds Against the Elderly, Harrisburg, Pa., August 4, 1981.[2]

The Social Security System: Averting the Crisis, Evanston, Ill., August 10, 1981.***

Social Security Reform and Retirement Income Policy, Washington, D.C., September 6, 1981.[2]

Older Americans Fighting the Fear of Crime, Washington, D.C., September 22, 1981.***

Employment: An Option for All Ages, Rock Island, Ill., and Davenport, Iowa, October 12, 1981.[2]

Older Workers: The Federal Role in Promoting Employment Opportunities, Washington, D.C., October 29, 1981.[2]

Rural Health Care for the Elderly: New Paths for the Future, Grand Forks, N. Dak., November 14, 1981.[2]

Oversight of Health and Human Services Inspector General's Anti-Fraud, Abuse, and Waste Activities (joint hearing with Senate Finance Committee), Washington, D.C., December 9, 1981.[2]

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[2] Not yet available at time of this printing.

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